

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION

Financial Statements

**As of and for the years ended December 31, 2013 and 2012
and Independent Auditor's Report**

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To the Board of Trustees of the
Albanian-American Development Foundation
New York, NY

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial position of the Albanian-American Development Foundation (the "Foundation") as of December 31, 2013 and the related statements of activities and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

Except as discussed in paragraph below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America (the "U.S. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 provide a reasonable basis for our opinion.

Although we have periodic quality control reviews by other Deloitte affiliates, we did not have an external peer review by an unaffiliated audit organization as required in Chapter 3, paragraph 3.52 of the U.S. Government Auditing Standards since no such program is enrolled in Albania by professional organizations. We believe that the effect of this departure from U.S. Government Auditing Standards is not material because we participate in the Deloitte worldwide internal quality control review program which requires Deloitte Albania sh.p.k. to be subject every three years to an extensive quality control review by partners and managers from other Deloitte affiliates. The objectives of the internal quality control review to which Deloitte Albania sh.p.k. is subject to, are similar to those required by Chapter 3, paragraph 3.52 of the U.S. Government Auditing Standards.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Albanian-American Development Foundation as of December 31, 2013, the results of its activities, its cash flows and financial highlights for the year then ended in accordance with accounting principles generally accepted in the United States of America.

March 31, 2015
Tirana, Albania



Elvis Ziu
Engagement Partner

**ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011**

(all amounts are expressed in USD)

	Notes	December 31, 2013	December 31, 2012
Assets			
Cash and cash equivalents	4	1,475,406	481,528
Investments at fair value	5	175,388,223	163,067,678
Prepaid expenses and other assets	7	299,572	270,070
Property and equipment, net <i>(See Appendix A)</i>	6	60,072	57,417
Total assets		<u>177,223,272</u>	<u>163,876,693</u>
 Liabilities and unrestricted net assets			
Accounts payable and accrued expenses	8	365,142	298,684
Total liabilities		<u>365,142</u>	<u>298,684</u>
Unrestricted Net Assets	9	176,858,131	163,578,009
Total liabilities and unrestricted net assets		<u>177,223,272</u>	<u>163,876,693</u>

The accompanying notes from 1 to 22 to the financial statements form an integral part of these financial statements.

These financial statements have been reviewed and approved by management on _____ and signed on its behalf by:

Co-Chief Executive Officer
Martin Mata

Finance and Administration Manager
Ilir Halilaj

Co-Chief Executive Officer
Aleksander Sarapuli

**ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

(all amounts are expressed in USD)

	Notes	Year ended December 31, 2013 Unrestricted	Year ended December 31, 2012 Unrestricted
Changes in net assets:			
Income			
Investment income	10	5,503,623	4,706,103
Interest income		329	337
Total income		5,503,952	4,706,440
Program Expenses (see Appendix A)			
Program Activities		(843,117)	(1,352,655)
Employee Compensation and Benefits		(101,883)	(116,295)
Professional Services		(60,364)	(56,912)
Other operating expenses		(66,727)	(92,060)
		(1,072,092)	(1,617,922)
General and Administrative Expenses			
Allocation of expenses from AAEF	11	(229,742)	(281,801)
Employee compensation and benefits	12	(559,664)	(389,786)
Professional services	13	(56,529)	(21,680)
Trustees' expenses		(100,109)	(100,058)
Investment advisory fees		(89,033)	(80,974)
Depreciation	6	(23,680)	(59,843)
Other operating expenses	14	(181,513)	(255,716)
		(1,240,271)	(1,189,858)
Total expenses		(2,312,363)	(2,807,780)
Income in excess of expenses		3,325,440	1,898,660
Net unrealized and realized loss on investments and foreign currency effect			
Net realized gain/loss on investments	5	(204,548)	(17,070,582)
Net unrealized gain/loss on investments	5	10,236,503	28,226,766
Foreign currency effect		20,137	22,051
Total net unrealized and realized loss on investments and foreign currency effect		10,052,092	11,178,189
Change in unrestricted net assets		13,243,681	13,076,849
Unrestricted net assets at beginning of year		163,578,009	150,501,161
Unrestricted net assets at end of year	9	176,821,171	163,578,009

The accompanying notes from 1 to 22 to the financial statements form an integral part of these financial statements.

**ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

(all amounts are in USD)

		Year ended December 31, 2013	Year ended December 31, 2012
Net increase in net assets	Notes	13,243,680	13,076,849
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>			
Depreciation	6	23,680	59,843
Write downs	6	-	128,977
Investment income	10	(5,503,623)	(4,706,103)
Investment advisory fee		89,033	80,794
Net realized (gain)/loss on investments	5	204,548	(17,070,582)
Net unrealized (gain)/loss on investments	5	(10,236,503)	28,226,766
<i>Operating result before changes in current assets and liabilities</i>		<i>(2,179,184)</i>	<i>(2,515,597)</i>
<i>Changes in current assets and liabilities</i>			
Change in prepaid expenses and other assets		(29,502)	(268,809)
Change in payable and accrued expenses		102,900	276,635
Net cash used in operating activities		(2,105,153)	(2,507,771)
Cash flows from investing activities:			
Purchases of property and equipment	6	(26,336)	(175,607)
Withdrawals of funds net of investments		3,126,000	2,400,000
Net cash provided by investing activities		3,099,031	2,224,393
Net (decrease)/increase in cash and cash equivalents		994,396	(283,378)
Cash and cash equivalents, beginning of the year	4	481,528	764,906
Cash and cash equivalents, end of the year	4	1,475,406	481,528

The accompanying notes from 1 to 22 to the financial statements form an integral part of these financial statements.

**ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

(all amounts are expressed in USD)

1. ORGANIZATION

The Albanian-American Development Foundation is a U.S. not-for-profit corporation originally incorporated in the State of Delaware on September 9, 2009 pursuant to an agreement between the Albanian-American Enterprise Fund and the U.S. Government based on the certificate of Incorporation and the legal form of the entity is a Corporation. The Albanian-American Development Foundation registered in the U.S. pursuant to the U.S. Foreign Assistance Act of 1961 and of the U.S. Support for East European Democracy act of 1989 (SEED Act) by building upon the programs established by the Albanian-American Enterprise Fund supporting the development of the private sector through education, entrepreneurship, leadership development, cultural and eco-tourism in Albania. The Foundation shall be operated as a perpetual endowment.

The Albanian-American Development Foundation (the "Foundation") was registered in Albania based on the court decision dated March 18, 2011 under an identification number NUIS L11618452N. The Foundation is capitalized through an endowment created by a grant from the Albanian-American Enterprise Fund (the Fund). The Fund pays or transfers to the Foundation certain proceeds, which constitute in aggregate the endowment to the Foundation. The original source of the grant funds provided by the Fund to the Foundation is the U.S. Government acting through USAID and the funds provided through the Foundation are therefore a gift from the American people to the citizens of Albania.

The Foundation will assist in the development and growth of a vibrant private sector for the benefit of a free and democratic Albania. The Foundation will continue the Fund's mission to make a meaningful contribution to Albania's economic transition and progress. It will serve as an enduring symbol of U.S. commitment to Albania.

The Foundation program will concentrate on four areas:

- Education for Sustainable Development
- Entrepreneurship
- Leadership Development; and
- Support for Cultural Tourism and Eco-Tourism

The Foundation uses two approaches to fund its program strategies: grants and program related investments. The Foundation generally seeks an external program manager to execute the objectives of each individual grant, thereby leveraging the Foundation's resources.

The Foundation maintains offices in New York, NY, U.S.A. and in Tirana, Albania, with the majority of the Foundation's operations performed through its personnel hired in Albania.

On November 30, 2010, the Albanian-American Enterprise Fund decided to transfer the Vanguard account with a fair value of USD 148,572,535 to the Albanian-American Development Foundation, as an endowment. The transfer was completed on December 22, 2010 at an amount of 151,067,604, which represents the fair value of the investment at the effective date of transfer.

In 2011 the Foundation entered into a Technical Service Agreement with the Fund for the provision of services as detailed in the agreement including provision of management expert, shared staff costs, rentals for office space etc. For these services the Foundation receives monthly invoices from the Fund.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(all amounts are expressed in USD)

2. BASIS OF PRESENTATION

The Foundation prepares its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not for Profit Entities*.

The Foundation's statements are reported on a US dollar basis.

Unrestricted net assets are those net assets that are not restricted by donor imposed stipulations.

Unrestricted net assets are further designated as restricted by the Board of Trustees when assigned to approved projects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

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

b. Investments

Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value. Fair value is determined based on quoted market prices and/or other inputs permitted by ASC Topic 820, as described in "Fair Value" below. Unrealized gains or losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition to proceeds at the time of disposal, or market values at the last day of the fiscal year, respectively, and include the effects of currency translation with respect to transactions and holdings of foreign securities. Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon an ex-dividend date and interest income is recorded as earned on an accrual basis.

c. Fair value

The Foundation uses Accounting Standards Codification, ASC Topic 820, Fair Value Measurement and Disclosures ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. ASC 820 also established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets, or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Fair value (continued)

Level 3 Valuation based on inputs that are unobservable for an asset or liability and should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input, therefore, reflects the entity's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

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

Vanguard Investments:

Vanguard investments consisted of Bonds, Stocks and Money Market Institutional Shares listed in public exchanges. These investments are public investment vehicles valued using the net asset value ("NAV") provided by the administrator of the Vanguard Investments fund. The NAV for public mutual funds is a quoted price in an active market and classified within level 1 of the valuation hierarchy. The fair value of Vanguard investments is based on quoted market prices reported to Management by its investment advisors, Vanguard Advisors, Inc. The ASC 820 disclosures are presented in Note 5.

This price is classified within Level 1 and Level 2 of the valuation hierarchy because either the instrument has a unit price that is quoted on an active public market or on a private market; however the instruments are issued and guaranteed by entities that are traded on an active market. In addition, the issuing entities prepare financial statements in accordance with US GAAP and are making interest payments according to the instruments' original terms.

Blackstone Investments:

In November 2013 the AADF entered into an agreement with Blackstone Partners Offshore Fund Ltd (the Fund) to purchase USD 10,000,000.00 of their Funds Class F shares

These investments are not public investment vehicles. AADF uses the net asset value ("NAV") provided by the administrator of the Blackstone Fund, Citigroup Fund Services Canada Inc.

Blackstone Alternative Asset Management L.P, a limited partnership organized under the laws of the state of Delaware serves as the investment manager of the Fund.

The price of shares in the Fund is classified within Level 3 of the valuation hierarchy because the instrument is not quoted in active markets and prices of comparable securities cannot be verified.

The ASC 820 disclosures are presented in Note 5.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Fair value (continued)

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

d. Cash and Cash Equivalents

Cash and cash equivalents are considered all highly liquid financial instruments with original maturities of three months or less when purchased.

e. Interest and dividend income

Interest and dividend income is recorded in the period in which is earned.

f. Use of Estimates

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

g. Program and administrative expenses

Program and administrative expenses are recorded in the period in which they are incurred.

h. Functional Currency

The Foundation's functional and reporting currency is the U.S. dollar. The Foundation's operating transactions are initiated in U.S. dollars and exchanged for Albanian Lek and/or EUR only when needed using the spot rate received by the bank. All of the Foundation's Albanian Lek and EUR assets and liabilities are re-measured into U.S. dollars at the period's end official exchange rate. Re-measurement adjustments are reflected in the statement of activities.

i. Property and Equipment and depreciation

Office equipment and software are recorded at cost. Depreciation is calculated using the straight-line basis over the estimated useful life of the equipment ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. The estimated useful lives applied for the financial year ended December 31, 2012 are:

• Computer Equipment and Software	3 years
• Vehicles	5 years
• Office Equipment	5 years

Gains and losses on disposal of property and equipment are recognized in the statement of activities and as changes in net assets in the year of disposal.

j. Value Added Tax Receivable

Based on the bilateral agreement between the governments of Albania and the United States, (Decree 224, dated 6/11/1992) which defines tax treatments of US Government funds disbursed in Albania, Albanian-American Development Foundation as a recipient of USAID funds shall have Value Added Tax paid in Albania reimbursed by the government of Albania. Claims for VAT reimbursement are submitted by AADF according to a schedule determined by the Ministry of Foreign Affairs of Albania and then reimbursed by the Ministry of Finance.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

4. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash on hand	1,007	228
Current accounts		
In USD	1,434,638	478,790
In LEK	38,528	2,397
In EUR	1,233	112
Total cash and cash equivalents	<u>1,475,406</u>	<u>481,528</u>

Current accounts as a December 31, 2013 represent balances held at Intesa Sanpaolo Bank in Albania and Bank of America Merrill Lynch in New York.

5. INVESTMENTS

	December 31, 2013	December 31, 2012
<i>Bonds</i>		
Total Bond Market Index Fund Inst. (VBTIX)	43,668,625	54,740,369
Intermediate Term Investment Grade (VFIDX)	30,840,279	33,618,565
High-Yield Corporate Fund Admiral (VWEAX)	15,335,234	14,655,086
<i>Stocks</i>		
Vanguard Total International Stock Index (VGTSX)	23,020,502	20,696,538
Total Stock Market Index Institutional (VITSX)	52,447,541	39,357,120
<i>Other Equity</i>		
Blackstone Partners Offshore Fund (Class F1)	10,076,041	-
Total investments	<u>175,388,223</u>	<u>163,067,678</u>

The investments consist of Bonds, Stocks and Money Market Institutional Shares listed in public exchanges. These investments are administered from the Vanguard Investments fund and Blackstone Partners Offshore Fund.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

5. INVESTMENTS (CONTINUED)

The cost and fair value of the Foundation's investment at December 31, 2013 and 2012 and the accumulated unrealized gain/Loss is presented as follows:

Investments as of December 31, 2013	Cost	Fair Value	Accumulated unrealized gains / (losses)	Realized Gains/Losses
Vanguard Mutual funds - fixed income	92,315,194	89,844,139	(2,471,055)	(997,226)
Vanguard Mutual funds – equity	38,180,218	75,468,043	37,287,825	792,678
Vanguard TOTAL	130,495,412	165,312,182	34,816,770	(204,548)
Blackstone - Other equity	9,989,295	10,076,041	86,746	-
Blackstone TOTAL	9,989,295	10,076,041	86,746	-
Investments TOTAL	140,484,707	175,388,223	34,903,516	(204,548)

Investments as of December 31, 2012	Cost	Fair Value	Accumulated unrealized gains / (losses)	Realized Gains/Losses
Mutual fund - fixed income	101,013,125	103,014,020	2,000,895	1,513,258
Mutual fund – equity	37,387,540	60,053,658	22,666,118	(18,583,840)
Mutual fund – other	-	-	-	-
TOTAL	138,400,665	163,067,678	24,667,013	(17,070,582)

Investment income earned during the years 2013 and 2012 were respectively USD 5,503,623 and USD 4,706,103 (refer to note 10) were reinvested in mutual funds when earned.

Unrealized gains / (losses) on investments for the years-ended December 31, 2013 and December 31, 2012 are presented below:

	Accumulated unrealized gains / (losses) as at 31 December 2012	Unrealized gains / (losses) for the year 2013	Accumulated unrealized gains / (losses) as at 31 December 2013
Mutual fund - fixed income	2,000,895	(4,471,950)	(2,471,055)
Mutual fund – equity	22,666,118	14,621,707	37,287,825
Other – Equity	-	86,746	86,746
TOTAL	24,667,013	10,236,503	34,903,516

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

5. INVESTMENTS (CONTINUED)

	Accumulated unrealized gains / (losses) as at 31 December 2011	Unrealized gains / (losses) for the year 2012	Accumulated unrealized gains / (losses) as at 31 December 2012
Mutual fund - fixed income	75,413	1,925,482	2,000,895
Mutual fund - equity	(3,635,166)	26,301,284	22,666,118
TOTAL	(3,559,753)	28,226,766	24,667,013

A summary of investments by fair value level hierarchy, as described in note 3(c), for the year ended December 31, 2013 and 2012 is as follows:

Investments as of December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Mutual fund - fixed income	89,844,139	-	-	89,844,139
Mutual fund - equity	75,468,043	-	-	75,468,043
Other - equity	-	-	10,076,041	10,076,041
TOTAL	165,312,182	-	10,076,041	175,388,223
Total %	94.26%	0%	5.74%	100%

Investments as of December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Mutual fund - fixed income	103,014,020	-	-	103,014,020
Mutual fund - equity	60,053,658	-	-	60,053,658
Mutual fund - other	-	-	-	-
TOTAL	163,067,678	-	-	163,067,678
Total %	100%	0%	0%	100%

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(all amounts are expressed in USD)

5. INVESTMENTS (CONTINUED)

A summary of Level 1 activity for the year ended December 31, 2013 and December 31, 2012 is as follows:

Vanguard:

	2013	2012
Balance as at January 1	163,067,678	149,686,412
Purchases / (withdrawals)	(13,126,000)	(2,400,000)
Investment income re-invested (Note 10)	5,503,623	4,706,103
Investment advisory fee	(78,328)	(80,974)
Net realized gain / (loss) on investments	(204,548)	(17,070,582)
Net unrealized gain / (loss) on investments	10,149,757	28,226,766
Balance as at December 31	165,312,182	163,067,678

A summary of Level 3 activity for the year ended December 31, 2013 and December 31, 2012 is as follows:

Blackstone:

	2013	2012
Balance as at January 1	-	-
Purchases / (withdrawals)	10,000,000	-
Investment income re-invested (Note 10)	-	-
Investment advisory fee	(10,705)	-
Net realized gain / (loss) on investments	-	-
Net unrealized gain / (loss) on investments	86,746	-
Balance as at December 31	10,076,041	-

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(all amounts are expressed in USD)

6. PROPERTY AND EQUIPMENT, NET

As of December 31, 2013 and 2012, property and equipment consisted of:

	Computers	Vehicles	Cell phones and electronic devices	Furniture and equipment	Software	Total
<i>Cost</i>						
As of January 1, 2012	32,895	43,167	1,701	3,434	-	81,197
Additions	454	-	223	172,150	2,669	175,496
Write downs	-	-	-	(164,639)	-	(164,639)
As of December 31, 2012	33,349	43,167	1,924	10,945	2,669	92,054
Additions	22,273	0	43	4,250	331	26,897
As of December 31, 2013	55,623	43,167	1,967	15,305	2,999	119,062
<i>Accumulated Depreciation</i>						
As of January 1, 2012	(5,447)	(4,317)	(273)	(529)	-	(10,566)
Charge of the year	(9,478)	(8,633)	(548)	(40,148)	(1,035)	(59,842)
Write downs	-	-	-	35,661	-	35,661
As of December 31, 2012	(14,925)	(12,950)	(821)	(5,016)	(1,035)	(34,747)
Charge of the year	(11,602)	(8,633)	(645)	(1,791)	(1,570)	(24,241)
As of December 31, 2013	(26,527)	(21,584)	(1,466)	(6,807)	(2,605)	(58,989)
<i>Net book value</i>						
As of January 1, 2013	18,424	30,217	1,103	5,929	1,634	57,307
As of December 31, 2013	29,096	21,583	501	8,498	394	60,072

Write downs relate to Polycom video conferencing system identified as obsolete in 2012 when majority of the Foundation operations were transferred to Albania. Additions in 2012 amounting to USD 170,400 were acquired and paid by the Fund and transferred to the Foundation during the year.

Property and Equipment Net of USD 10,769 relate to Fellowship Program (See Appendix A)

7. VALUE ADDED TAX (VAT) RECEIVABLE AND PREPAID EXPENSES

	December 31, 2013	December 31, 2012
VAT Receivable	277,144	252,316
Prepaid Health Insurance - Employee	20,778	15,569
Due to/from NY Office	614	2,079
Prepaid Expenses	381	24
Accounts Receivable-AAEF	127	-
Employee Receivables	10	82
Total Prepaid Expenses and Other Assets	299,054	270,070

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
 (all amounts are expressed in USD)

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2013	December 31, 2012
Payables to AAEF (see Note 15)	137,907	175,495
Grant Related Liability (see Note 15)	93,750	-
Construction retainer (payment guarantee)	73,843	91,757
Payable to suppliers	48,985	25,160
Accrued expenses	36,442	218
Social insurance and income tax	10,658	6,054
Total accounts payable and accrued expenses	401,584	298,684

Payables to the Fund arise due to the transfer of assets and expenses initially paid by the Fund and then transferred to the Foundation.

The liability amounting to USD 93,750 as of December 31, 2013 is payable to the Fund in connection to the non-competing agreement signed between the Fund and a retired executive. The non-competing agreement is payable out of the net proceeds generated from the liquidation of the Fund's investments, which were transferred to the Foundation on November 30, 2010.

9. UNRESTRICTED NET ASSETS

At December 31, 2013 the amount of USD 9,618,121 out of total net assets was designated as restricted for specific projects approved by the Board of Trustees. Please refer to *Appendix A - Schedule of Projects*.

10. INVESTMENT INCOME

	Year ended December 31, 2013	Year ended December 31, 2012
Dividend Income-Investments	5,503,623	4,706,103
Total investment income	5,503,623	4,706,103

11. ALLOCATION OF EXPENSES FROM AAEF

Allocation of expenses and benefits comprises allocation of costs contracted and paid by the Fund for rental of spaces, utilities, consumable materials and other services shared between the two entities.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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(all amounts are expressed in USD)

12. EMPLOYEE COMPENSATION AND BENEFITS

	Year ended December 31, 2013	Year ended December 31, 2012
Payroll expenses	458,888	357,696
Social and health contributions	31,069	19,239
Bonuses	21,653	12,351
Other personnel expenses	48,054	501
Total employee compensation and benefits	559,664	389,786

Employee compensation and benefits include costs incurred for staff employed by the Foundation. At December 31, 2013 the Foundation had 21 employees (2012: 12 employees).

13. PROFESSIONAL SERVICES

	Year ended December 31, 2013	Year ended December 31, 2012
Accounting Fees	20,135	5,800
Legal Fees	17,365	9,430
Other Professional Fees	19,029	6,450
Total Professional Services	56,529	21,680

14. OTHER OPERATING EXPENSES

	Year ended December 31, 2013	Year ended December 31, 2012
Travel	28,049	15,526
Outside Computer Services	27,840	17,746
Office Maintenance	19,954	28,350
Rent, Parking Other Occupancy	19,146	23,117
Telephone & Telecommunication	17,527	5,172
Insurance	15,148	18,650
Postage & Shipping	7,817	2,461
Company Vehicle Expense	5,771	4,977
Bank Fees	1,746	2,204
Equipment rental & maintenance	1,155	27
Books, subscriptions, references	100	53
Write down charged to expense (note 6)	-	128,978
Other expenses	37,260	8,455
Total other operating expenses	181,513	255,716

Write downs relate to Polycom video conferencing system identified as obsolete in 2012 when majority of the Foundation operations were transferred to Albania.

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15. RELATED PARTY TRANSACTIONS

Related parties are considered to be the Fund, the management of the Foundation and members of their immediate families, other parties with which the Foundation may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, and other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The Board of Trustees is in charge of governance. The Board of Trustees members do not get paid from the Foundation for their service instead are reimbursed for any expenses incurred in their role as Trustees of the Foundation.

As at December 31, 2013 and 2012, the Foundation had the following balances with related parties:

	2013	2012
At January 1,	175,495	20,006
Increase due to assets transferred during the year	-	170,400
Increase due to Program Expenses allocated	-	42,821
Increase due to expenses allocated during the year	931,700	644,553
Payments made	<u>(875,538)</u>	<u>(702,285)</u>
At December 31,	<u><u>231,657</u></u>	<u><u>175,495</u></u>

16. CONCENTRATION OF RISK

As of December 31, 2013 The Foundation has its investment portfolio invested in the United States through Vanguard Investments and Blackstone Partners Offshore Fund Ltd.

These investments are diversified as follows:

51.88% invested in fixed income mutual fund (MF) investments while
48.12% invested in foreign and domestic (US) equity funds.

There are various degrees of risk associated with each of these funds.

Each fund is managed by Vanguard and Blackstone Partners Offshore Fund Ltd and is subject to fees and disclosures detailed in the funds' prospectus and the subscription agreement. Dividend distributions as well as realized capital gains are reinvested in the respective funds.

The Foundation's investment portfolio is reviewed at least quarterly by the Investment Committee of the Board of Directors of the Foundation. During this review the concentration of risk as well as the performance of all investments is assessed. All new investments of the Foundation are pre-approved by the Investment Committee. In addition, the Foundation uses external investment managers and advisors to manage the risk of the portfolio.

**ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

(all amounts are expressed in USD)

17. MARKET RISK

a. Currency Risk

The Foundation is exposed to limited effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows considering that its functional and reporting currency is USD.

b. Price Risk

The Foundation is exposed to market price risks related to its investments. As a result of the global economic slowdown the financial markets remain volatile, which may lead to market price fluctuations of Vanguard Funds' underlying assets and may cause uncertainty regarding the accounting estimates in future periods.

18. COMMITMENTS AND CONTIGENCIES

In May 26, 2011, the Foundation entered into a Technical Service Agreement with the Fund for the provision of services and office space as detailed in the agreement. Accordingly the actual costs paid from the Fund on behalf of the Foundation, are allocated to the Foundation based on space and other materials consumption.

19. TAX STATUS

UNITED STATES

The Foundation is exempt from U.S. Federal, state and local income taxes under the provisions of Section 501(c) (3) of the Internal Revenue Code. In addition, The Foundation is exempt from payments of state and local income taxes in the U.S.A.

ALBANIA

Based on the bilateral agreement between the governments of Albania and the United States, (Decree 224, dated 6/11/1992) which defines tax treatments of US Government funds disbursed in Albania, Albanian-American Development Foundation as a recipient of USAID funds shall not pay income tax in Albania.

20. SUBSEQUENT EVENTS

No subsequent events were identified that required adjustment to or disclosure within the financial statements for the year ended December 31, 2013.

Appendix A

**SCHEDULE OF PROJECTS
AS AT DECEMBER 31, 2013**

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2013

(all amounts are expressed in USD)

Schedule of Projects as of December 31, 2013

Project	Budget (USD)	Project disbursements for the year 2011	Project disbursements for the year 2012	Project disbursements for the year 2013	Remaining Budget	Project Duration (Years)	Approval Date
Butrint Reform	194,848	-	-	-	194,848	1	Dec-13
Tech Crew	50,000	-	-	-	50,000	1	Dec-13
Peace Corps Partnership	90,000	-	-	8,981	81,019	1	Jun-13
Crimson Capital Fund	1,250,000	-	-	-	1,250,000	2	Jun-13
BID Berat	1,750,000	-	-	87,080	1,662,920	1	Mar-13
Center for Talented Youth	20,000	-	-	20,325	(325)	1	Dec-12
Young Innovators Club	12,150	-	-	7,676	4,474	1	Dec-12
Skanderbeg Armor	60,000	-	65,622	5,775	(11,397)	1/4	Nov-12
Albanian Fellows Program	1,823,867	-	1,062	74,070	1,748,735	5	Aug-12
ICT Internship Program	182,754	-	23,813	18,762	140,180	3	May-12
AUBG Undergraduate Scholarships	489,626	-	46,155	62,481	380,990	4	Mar-12
Junior Achievement	1,231,930	-	248,157	266,365	717,408	3	Dec-11
Business Improvement District Korea	856,475	-	483,088	219,703	153,684	2	Dec-11
Business Improvement District Shkodra	856,475	146	592,381	122,243	141,705	2	Dec-11
Protik Training and Innovation Center	499,996	-	44,153	100,933	354,910	3	Mar-14
Butrint National Park	250,000	4,252	113,491	88,466	43,791	1 1/2	Mar-11
Total Value of Approved Projects	9,618,121	4,398	1,617,922	1,082,860	6,912,940		

General overview of the Projects:

1. Butrint - creating an integrated management plan for the preservation of Butrint National Park along with a few quick fix investments such as a ticketing hut, equipment and minor infrastructure repairs.
2. Protik is an independent, not-for-profit Information Communication Technology (ICT) innovation center; AADF is responsible for financing and providing management to the center.

General overview of the Projects (continued)

3. BID Shkodra - Assisting in the creation of a Business Improvement District (BID) in Shkodra. A BID is a public-private partnership in which a publicly supported, privately managed organization is created to improve the physical environment and enhance public services and investments in a geographically distinct urban, commercial neighborhood.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2013

(all amounts are expressed in USD)

4. BID Korca - Assisting in the creation of a Business Improvement District (BID) in Korca. A BID is a public-private partnership in which a publicly supported, privately managed organization is created to improve the physical environment and enhance public services and investments in a geographically distinct urban, commercial neighborhood.
5. JA - Opening Junior Achievement in Albania, a worldwide non-profit organization that is dedicated to educating students about workforce readiness, entrepreneurship, and financial literacy through hands-on programs.
6. AUBG Scholarships - Creates a scholarship program funded by the Albanian-American Development Foundation, to support the education of high-performing Albanian students studying at the American University in Bulgaria.
7. ICT Internship - A Protik managed internship program that serves to further communication between academia and the ICT private sector.
8. Albanian Fellows - Modeled after the White Fellows Program, its purpose is to provide gifted young Albanian Professionals with first hand experience in the process of governing Albania and a sense of personal involvement in the leadership of society.
9. Skanderbeg Armor - Together with the government of Albania, Sigal/Uniq Group, the Austrian Embassy, AADF supported the initiative of bringing the armor of Skanderbeg and two accompanying paintings for display in Albania for the upcoming 100-year independence celebration.
10. Young Innovators Club - This AADF initiative relates to ICT education, entrepreneurship, and leadership development projects. The AADF is funding a small (USD 12,150 for one year) but potentially high impact program, run by Protik
11. Center for Talented Youth - Through the CTY program, the AADF and the CTY will sponsor five club members each to attend technology based courses in American Universities. It is hoped that some of the students selected for scholarships by CTY will also have the background and interests to become members of the young innovators club.
12. BID Berat - Assisting in the creation of a Business Improvement District (BID) in Berat. A BID is a public-private partnership in which a publicly supported, privately managed organization is created to improve the physical environment and enhance public services and investments in a geographically distinct urban, commercial neighborhood.
13. Crimson Capital Fund - The AADF will use foundation resources to leverage other donors into forming a partnership to create a new, Albanian registered, lending institution driven primarily by development goals. Crimson Capital Fund is expected to start in September 2014.
14. Peace Corps Partnership - AADF would have an opportunity to fund high impact youth leadership programming using the large network of volunteer labor and logistical support that only Peace Corps could offer.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2013

(all amounts are expressed in USD)

General overview of the Projects (continued)

15. Tech Crew – This project is designed to develop the capacity of teenagers to prototype new ideas. The project is run through Profik.
16. Butrint Reform – This project is designed to improve legislation on management of heritage sites in Albania primarily in Butrint National Park.

The table below presents a breakdown of program activities and program assets by project:

FS Line	Center For											Grand Total		
	BID Berat	BID Korca	BID Shkodra	BID Butrint	Talented Youth	ICT-TRC (Profik)	Internship Lab	Achievement	Junior	PC AADF Partnership	Scholarships AUB		Skanderbeg Armor	Young Innovators Club
Employee Compensation and Benefits	13,327	9,922	9,922	-	-	41,398	4,789	-	22,525	-	-	-	-	101,883
Other Operating Expenses	7,588	9,806	16,474	1,811	-	9,908	85	44	12,972	4,067	881	3,092	-	66,727
Professional Services	15,459	14,306	4,275	24,691	-	749	-	-	817	67	-	-	-	60,364
Program Activities	50,706	185,669	91,573	61,964	20,325	11,246	107,639	10,248	230,051	4,847	61,600	2,683	4,566	843,117
Total program activities for the year 2013	87,080	219,703	122,244	88,466	20,325	63,301	112,513	10,292	266,365	8,981	62,481	5,775	4,566	1,072,091
Property and Equipment Net*	-	-	-	-	-	-	-	-	-	-	-	-	-	10,769
Total projects disbursements for the year 2013	87,080	219,703	122,243	88,466	20,325	74,070	112,513	10,292	266,365	8,981	62,481	5,775	4,566	1,082,860

*Property and Equipment Net of USD 10,769 relating to Fellowship program are included in AADF's Statement of Financial Position and are presented in Note 6