

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION

**Independent Auditor's Report
and Financial Statements
as of for the years ended December 31, 2016 and 2015**

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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 financial statements of the Albanian-American Development Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2016 and 2015 the related statements of activities, cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in paragraphs below, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 by the auditing standards generally accepted in the United States of America, since no such program is enrolled in Albania by professional organizations. We believe that the effect of this departure from these standards is not material because we participate in the Deloitte worldwide internal quality control review program, which requires Deloitte Audit Albania sh.p.k. to be subject every year 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 Audit Albania sh.p.k. is subject to, are similar to those required by the auditing standards generally accepted in the United States of America.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see <http://www.deloitte.com/al/about> for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Auditors' Responsibility (continued)

Deloitte Audit Albania Sh.p.k does not track conformity with CPE requirements as set by the auditing standards generally accepted in the United States of America. We believe that the effect of this departure from these standards is not material as the audit team undergoes rigorous trainings and other professional development and education activities as required by internal worldwide, regional and local Deloitte policies as well as regulators supervising the audit profession in Albania. Moreover, the key team members keep themselves continuously updated about the accounting and auditing standards applicable to this engagement through internal company resources as well as resources made available through the American Institute of Certified Public Accountants.

Opinion

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, 2016 and 2015, the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte Audit Albania sh.p.k.

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Engagement Partner
Elvis Ziu

August 4, 2017
Tirana, Albania

Elvis Ziu




ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND 2015


(all amounts are expressed in USD)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	4	2,338,354	908,023
Investments at fair value	5.1	202,414,208	182,493,849
Other investment	5.2	323,797	104,024
Prepaid expenses and other assets	7	394,337	266,472
Property and equipment, net	6	69,016	92,957
Total assets		<u>205,539,712</u>	<u>183,865,325</u>
Liabilities and unrestricted net assets			
Accounts payable and accrued expenses	8	902,221	707,582
Total liabilities		<u>902,221</u>	<u>707,582</u>
Unrestricted Net Assets	9	204,637,491	183,157,743
Total liabilities and unrestricted net assets		<u>205,539,712</u>	<u>183,865,325</u>

The accompanying notes from 1 to 20 form an integral part of these financial statements.

The financial statements have been reviewed and approved by management on June 12, 2017 and signed on its behalf by:


Co-Chief Executive Officers
 Aleksander Sarapuli, Martin Mata


Finance and Administration Manager
 Valbona (Dode) Shyti

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Changes in net assets:			
Income			
Contributions	1	15,000,000	-
Investment income	10	4,289,994	4,021,151
Interest income		2,136	495
Total income		19,292,130	4,021,646
Program Expenses (see Appendix A)			
Program Activities		(2,333,100)	(1,942,824)
Employee Compensation and Benefits		(219,465)	(172,511)
Professional Services		(316,145)	(155,396)
Other operating expenses		(285,199)	(57,229)
		(3,153,909)	(2,327,960)
General and Administrative Expenses			
Allocation of expenses from AAEF	11	(209,457)	(181,964)
Employee compensation and benefits	12	(527,245)	(379,442)
Professional services	13	(120,808)	(60,782)
Trustees' expenses		(180,208)	(143,363)
Investment advisory fees		(406,842)	(406,797)
Depreciation	6	(40,120)	(38,348)
Other operating expenses	14	(211,348)	(232,814)
		(1,696,028)	(1,443,510)
Total expenses		(4,849,937)	(3,771,469)
Income in excess of expenses		14,442,193	250,176
Net unrealized and realized loss on investments and foreign currency effect			
Unrealized gain / (loss) on investments	5	5,871,386	(2,348,041)
Realized gain / (loss) on investments		1,174,822	(38,634)
Foreign currency effect		(8,653)	(47,343)
Total net unrealized and realized gain / (loss) on investments and foreign currency effect		7,037,555	(2,434,018)
Change in unrestricted net assets		21,479,748	(2,183,842)
Unrestricted net assets at beginning of year		183,157,743	185,341,585
Unrestricted net assets at end of year	9	204,637,491	183,157,743

The accompanying notes from 1 to 20 form an integral part of these financial statements.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are in USD)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Net increase / (decrease) in net assets		21,479,748	(2,183,842)
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>			
Depreciation	6	40,120	42,807
Investment income	10	(4,289,994)	(3,983,011)
Interest income		(2,136)	-
Investment advisory fee		406,842	406,797
Provisions and non-cash expenses		-	100,000
Unrealized and realized (gain) / loss on investments	5	(7,046,208)	2,348,041
<i>Operating result before changes in current assets and liabilities</i>		10,588,372	(3,269,209)
<i>Changes in current assets and liabilities</i>			
Change in prepaid expenses and other assets		(127,866)	4,686
Change in payable and accrued expenses		194,640	234,334
Net cash generated by / (used in) operating activities		10,655,146	(3,030,189)
Cash flows from investing activities:			
Purchases of property and equipment		(14,042)	(65,605)
Investment in Crimson Finance Fund Albania		(219,773)	(104,024)
Withdrawals of funds net of investments	5	(8,991,000)	2,500,000
Net cash (used in) / provided by investing activities		(9,224,815)	2,330,371
Net increase / (decrease) in cash and cash equivalents		1,430,331	(699,819)
Cash and cash equivalents, beginning of the year	4	908,023	1,607,842
Cash and cash equivalents, end of the year	4	2,338,354	908,023

The accompanying notes from 1 to 20 form an integral part of these financial statements.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(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 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 (“AADF” or “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 (“AAEF” or “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. On November 2, 2016, the Albanian-American Enterprise Fund transferred to the Albanian-American Development Foundation’s Vanguard account an endowment of USD 15,000,000.

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. The Foundation receives from the Fund monthly invoices for these services.

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.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

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.

Investments in non-securitized equity shares and where the Foundation holds significance influence on the investments are accounted for by using the equity method of accounting in accordance with ASC Topic 323, *Investments — Equity Method and Joint Ventures* ("ASC 323").

Investor must determine whether a decrease in the value of an equity method investment is other than temporary, as defined in ASC 323 and ASC 320, *Investments — Debt and Equity Securities*. If the decrease in value is other than temporary, the investor must measure the impairment as the excess of the investment's carrying value over the fair value. Impairment losses cannot be reversed in subsequent periods.

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
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(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 consist 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 of the valuation hierarchy because the instrument has a unit price that is quoted on an active public market or on a private 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 ("Blackstone") to purchase USD 10,000,000.00 of their Funds Class F shares. In June 2014, the AADF transferred another USD 15,000,000.00 into the same class of funds.

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.

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.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 five 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 years ended December 31, 2016 and 2015 are:

- | | |
|--|---------|
| • Computer Equipment, Cellular Phones 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, 2016 AND 2015

(all amounts are expressed in USD)

4. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
Cash on hand	115	28
Current accounts		
In USD	2,330,495	879,156
In LEK	7,303	10,284
In EUR	441	18,555
Total cash and cash equivalents	<u>2,338,354</u>	<u>908,023</u>

Current accounts as a December 31, 2016 and 2015 represent balances held at Intesa Sanpaolo Bank in Albania and Bank of America Merrill Lynch in New York.

5. INVESTMENTS

5.1 Investments at Fair Value

	December 31, 2016	December 31, 2015
Bonds		
Total Bond Market Index Fund Inst. (VBTIX)	61,172,013	56,536,912
Intermediate Term Investment Grade (VFIDX)	33,314,543	29,615,772
Stocks		
Vanguard Total International Stock Index (VGTSX)	14,886,373	14,126,899
Total Stock Market Index Institutional (VITSX)	65,386,184	55,318,839
Other Equity		
Blackstone Partners Offshore Fund (Class F1)	<u>27,655,095</u>	<u>26,895,427</u>
Total investments	<u>202,414,208</u>	<u>182,493,849</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
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

5. INVESTMENTS AT FAIR VALUE (CONTINUED)

5.1 Investments at Fair Value (continued)

	Accumulated unrealized gains / (losses) as at 31 December 2015	Unrealized gains / (losses) for the year 2016	Accumulated unrealized gains / (losses) as at 31 December 2016
Mutual fund - fixed income	(2,831,964)	(209,767)	(3,041,605)
Mutual fund – equity	36,263,776	4,983,721	41,247,497
Other – Equity	2,468,368	1,097,432	3,565,800
TOTAL	35,900,180	5,871,386	41,771,566
	Accumulated unrealized gains / (losses) as at 31 December 2014	Unrealized gains / (losses) for the year 2015	Accumulated unrealized gains / (losses) as at 31 December 2015
Mutual fund - fixed income	(1,034,633)	(1,797,331)	(2,831,964)
Mutual fund – equity	38,047,910	(1,784,134)	36,263,776
Other – Equity	1,235,070	1,233,298	2,468,368
TOTAL	38,442,732	(2,348,167)	35,900,180

A summary of investments by fair value level hierarchy, as described in note 3(c), for the year ended December 31, 2016 and 2015 is as follows:

Investments as of December 31,2016 (Audited)	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	94,486,556	-	-	94,486,556
Mutual fund – equity	80,272,557	-	-	80,272,557
Other – equity	-	-	27,655,095	27,655,095
TOTAL	174,759,113	-	27,655,095	202,414,208
Total %	86.34%	0%	13.66%	100%

Investments as of December 31, 2015 (audited)	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	86,152,684	-	-	86,152,684
Mutual fund – equity	69,445,738	-	-	69,445,738
Other – equity	-	-	26,895,427	26,895,427
TOTAL	155,598,422	-	26,895,427	182,493,849
Total %	85.26%	0%	14.74%	100%

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

5. INVESTMENTS AT FAIR VALUE (CONTINUED)

5.1 Investments at Fair Value (continued)

A summary of Level 1 activity for the year ended December 31, 2016 and December 31, 2015 is as follows:

Vanguard:

	2016	2015
Balance as at January 1	155,598,422	157,768,922
Purchases / (withdrawals), net	8,991,000	(2,500,000)
Investment income re-invested (Note 10)	4,289,994	4,021,151
Investment advisory fee	(69,079)	(71,677)
Unrealized gain / (loss) on investments	4,773,954	(3,581,340)
Realized gain / (loss)	1,174,822	(38,634)
Balance as at December 31	174,759,113	155,598,422

A summary of Level 3 activity for the year ended December 31, 2016 and December 31, 2015 is as follows:

Blackstone:

	2016	2015
Balance as of January 1	26,895,427	25,997,078
Purchases	-	-
Investment advisory fee	(337,763)	(335,119)
Net realized gain / (loss) on investments	-	-
Net unrealized gains	1,097,432	1,233,468
Balance as of December 31	27,655,096	26,895,427

5.2 Other investment

As part of its entrepreneurship program AADF has committed to holding a 25% stake in Crimson Finance Fund Albania sh.p.k (a non-bank financial institution) amounting at USD 104,024.

On December 30, 2015, AADF committed to a EUR 822,000 unsecured subordinated term loan with Crimson Finance Fund Albania sh.p.k. No disbursements were made in 2015. During 2016, AADF disbursed an amount of EUR 200,000 equivalent to USD 219,773.

	December 31, 2016	December 31, 2015
Investment in equity of Crimson Finance Fund Albania sh.p.k.	104,024	104,024
Loans receivable	219,773	-
TOTAL	323,797	104,024

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

6. PROPERTY AND EQUIPMENT, NET

As of December 31, 2016 and 2015, property and equipment consisted of:

	Computers	Vehicles	Cellular Phones	Furniture and equipment	Software	Total
<i>Cost</i>						
As of December 31, 2014	57,319	43,167	1,967	29,298	29,249	161,000
Additions	4,783	51,160	1,201	1,772	7,016	65,932
As of December 31, 2015	62,102	94,327	3,168	31,070	36,265	226,932
Additions	12,306	-	-	3,873	-	16,179
As of December 31, 2016	74,408	94,327	3,168	34,943	36,265	243,111
<i>Accumulated Depreciation</i>						
As of December 31, 2014	(39,435)	(30,217)	(1,830)	(10,882)	(8,804)	(91,168)
Charge of the year	(9,944)	(17,160)	(170)	(4,826)	(10,708)	(42,807)
As of December 31, 2015	(49,379)	(47,377)	(2,000)	(15,707)	(19,512)	(133,975)
Charge of the year	(8,845)	(14,549)	(517)	(5,102)	(11,107)	(40,120)
As of December 31, 2016	(58,224)	(61,926)	(2,517)	(20,809)	(30,619)	(174,095)
<i>Net book value</i>						
As of January 1, 2015	17,884	12,950	137	18,416	20,445	69,832
As of December 31, 2015	12,724	46,950	1,167	15,362	16,754	92,957
As of December 31, 2016	16,184	32,401	651	14,134	5,646	69,016

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

7. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2016	December 31, 2015
VAT receivable	357,419	262,751
Prepaid health insurance - employee	24,537	1,331
Prepaid expenses	10,893	-
Employee receivables	929	1,156
Interest receivable	559	-
Accounts receivable-AAEF	-	1,234
Total Prepaid Expenses and Other Assets	394,337	266,472

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2016	December 31, 2015
Accrued expenses	327,580	68,147
Construction retainer	269,927	219,063
Payable to AAEF	197,134	264,329
Payable to suppliers	91,228	142,009
Social insurance and personal income tax	16,352	14,034
Total accounts payable and accrued expenses	902,221	707,582

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

Accrued expenses relate to infrastructure work that has been completed, but has not been invoiced by the constructor as at the reporting date.

9. UNRESTRICTED NET ASSETS

At December 31, 2016 the amount of USD 24,714,727 (2015: USD 19,331,877) 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*.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

10. INVESTMENT INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
Dividend Income-Investments	4,289,994	3,982,516
Total	4,289,994	3,982,516

11. ALLOCATION OF EXPENSES FROM AAEF

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

12. EMPLOYEE COMPENSATION AND BENEFITS

	Year ended December 31, 2016	Year ended December 31, 2015
Payroll expenses	390,163	290,033
Social and health contributions	25,410	43,854
Bonuses	72,831	32,517
Other personnel expenses	38,841	13,038
Total employee compensation and benefits	527,245	379,442

Employee compensation and benefits include costs incurred for staff employed by the Foundation and executive compensation allocated by AAEF. As of December 31, 2016, the Foundation had 28 employees (2015: 23 employees).

13. PROFESSIONAL SERVICES

	Year ended December 31, 2016	Year ended December 31, 2015
Accounting Fees	16,288	20,056
Legal Fees	76,415	13,988
Other Professional Fees	28,105	26,738
Total Professional Services	120,808	60,782

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

14. OTHER OPERATING EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
Travel	45,683	40,366
Rent, Parking Other Occupancy	41,575	34,232
Insurance	24,852	21,729
Outside Computer Services	23,654	17,836
Office Maintenance	22,890	19,405
Telephone & Telecommunication	13,441	8,129
Company Vehicle Expense	9,241	7,915
Books, subscriptions, references	3,054	1,027
Postage & Shipping	3,048	5,204
Bank Fees	2,934	2,369
Equipment rental & maintenance	1,115	95
Other expenses	19,861	74,507
Total other operating expenses	211,348	232,814

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, 2016 and 2015, the Foundation had the following balances with AAEF:

	December 31, 2016	December 31, 2015
At January 1,	164,329	160,263
Increase due to expenses allocated during the year	715,272	523,900
Payments made during the year	(682,467)	(519,834)
At December 31,	197,134	164,329

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

16. CONCENTRATION OF RISK

As of December 31, 2016, 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:

46.68%	invested in fixed income mutual fund (MF) investments while
53.32%	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.

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.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(all amounts are expressed in USD)

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, 2016.

Appendix A

**SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2016**

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2016

(all amounts are expressed in USD)

Schedule of Projects as of December 31, 2016

#	Project	Budget (USD)	Approval Date	Project timeline
1	Junior Achievement	1,231,930	Dec-11	2012-2017
2	BID Korca	858,475	Dec-11	2012 – 2017
3	BID Shkodra	856,475	Dec-11	2012-2017
4	AUBG Undergraduate Scholarships	489,626	Mar-12	2012-2019
5	ICT Internship Program	143,411	May-12	2012-2016
6	Albanian Fellows Program	2,466,330	Aug-12	2013-2018
7	BID Berat	1,750,000	Mar-13	2013-2017
8	Crimson Capital Fund	1,250,000	Jun-13	Not determined
9	Butrint Reform	155,328	Dec-13	2014 until full implementation
10	Tech Crew	50,000	Dec-13	2015-2017
11	Protik Training and Innovation Center	499,996	Mar-14	2012-2017
12	TID Kruja	726,391	Jun-14	2014-2017
13	E-Ticketing	528,722	Jun-14	2017-2020
14	TID Gjirokastër	3,130,000	Oct-14	2016-2020
15	TID Korca Bazaar	1,611,750	Oct-14	2014-2019
16	Marubi Museum	650,000	Dec-14	2015-ongoing
17	BID Legislation	90,000	Dec-14	2015-ongoing
18	K 1-9	2,057,000	Mar-15	2015-2020
19	TID Tirana	2,455,485	Mar-15	2015-2020
20	Toeft Testing	250,000	Mar-15	2015-2016
21	Restoration Camp	210,000	Jun-15	2015-2018
22	Clean Score	393,808	Dec-15	2016-2018
23	Culture Corps	120,000	Mar-16	2016-2019
24	TID Vlora (project design)	200,000	Jun-16	2016-2017
25	JA Core Curriculum	1,960,000	Jun-16	2017-2020
26	Expanding access: sharing content – Empowering museums through technology	60,000	Sep-16	2016-2017
27	Masters and Internship program	470,000	Sep-16	2016-2018
28	Eco Destinations Albania- Tushemisht & Drlon, Ohrid Lake	50,000	Dec-16	Contingent upon the feasibility study findings
Total Value of Approved Projects		24,714,727		

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2016

(all amounts are expressed in USD)

General overview of the Projects:

#	Project	Overview
1	Junior Achievement	Junior Achievement in Albania is a member of Junior Achievement Worldwide, a worldwide non-profit organization that is dedicated to educating students about workforce readiness, entrepreneurship, and financial literacy through experiential learning.
2	BID Korca	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.
3	BID Shkodra	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.
4	AUBG Undergraduate Scholarships	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.
5	ICT Internship Program	ICT Internship - A Protik managed internship program that serves to further communication between academia and the ICT private sector.
6	Albanian Fellows Program	Albanian Fellows – Modeled after the White Fellows Program, its purpose is to provide gifted young Albanian Professionals with firsthand experience in the process of governing Albania and a sense of personal involvement in the leadership of society.
7	BID Berat	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.
8	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.
9	Butrint Reform	Butrint Reform is a continuation of the earlier Butrint National Park project with emphasis on designing legislation that will provide the framework for better management of the park. The intention is to have a blanket legislative framework that will apply to all national parks in Albania.
10	Tech Crew	Tech crew is a Protik managed project financed by AADF designed to promote new technology adoption by students and professionals alike and its use of productivity tools.
11	Protik Training and Innovation Center	Protik is an independent, not-for-profit Information Communication Technology (ICT) innovation center; AADF is responsible for financing and providing management to the center.
12	TID Kruja	TID Kruja is similar to Business Improvement Districts with a primary focus in preserving and rejuvenating the historic bazaar in the Kruja town.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2016
(all amounts are expressed in USD)

#	Project	Overview
13	E-Ticketing	Overview E-Ticketing Systems – as part of AADF’s commitment to improve national parks’ management E Ticketing is supposed to provide the tools to park administrators to better control the ticket sales through state of the art equipment.
14	TID Gjirokastra	TID Gjirokastra - in the same line of existing TID’s AADF is financing the architectural design of Gjirokastra’s old bazaar.
15	TID Korca Bazaar	TID Korca Bazaar is an investment in the existing infrastructure of Korca’s Grand Bazaar with a focus in developing a strong business association.
16	Marubi Museum	AADF is co-financing the renaissance of this valuable national treasure into a viable business that could provide a new tourist attraction in the city of Shkodra.
17	BID Legislation	BID Legislation – Improve the legal environment of BID associations and their interaction with municipalities.
18	K 1-9	K1-9 is a JA managed program financed separately by AADF designed to provide input into the possibility of expanding JA into the 1-9 elementary classes of the public education system.
19	TID Tirana	TID Tirana - in the same line of existing TID’s AADF is financing the architectural design of Gjirokastra’s old bazaar.
20	Toefl Testing	The project is composed of three pillars: TOEFL Junior test as an internationally recognized standardized testing of English language, teacher assessment of English language teachers and curriculum review
21	Restoration Camp	Restoration Camp – Train young restaurateurs on restoration projects.
22	Clean Score	Through this project new test scoring methods and textbooks of global standards will be introduced in 2 universities.
23	Culture Corps	Culture Corps is a new initiative of the AADF which aims to strengthen the cultural sector and to expand the possibilities for innovation and change through the power of creativity.
24	TID Vlora (design)	This project includes finalizing the architectural design for the targeted TID area.
25	JA Core Curriculum	JA modules are already in the official elective curriculum menu for high school. This project aims at materializing Junior Achievement integration as a core curriculum subject in the 12th grade responding to economic and entrepreneurship competence building in high school students.
26	Expanding access: sharing content – Empowering museums	This pilot project is dedicated to the digitization of the collections and application of in-site technology in 2 national museums dedicated to the medieval art and iconography.
27	Masters and Internship program	A prestigious fund to empower Albanian professionals who are committed to meeting the challenges of the professions contributing to development of Albanian society.
28	Eco Destinations Albania- Tushemisht & Driton, Ohrid Lake	Destination Albania officially launches the first major scale initiative that efficiently combines both the entrepreneurship and ecotourism sectors.

ALBANIAN-AMERICAN DEVELOPMENT FOUNDATION
SCHEDULE OF PROJECTS
AS OF DECEMBER 31, 2016

(all amounts are expressed in USD)

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

FS Line	AUBG	BID Berat	BID Korca	BID Legislation	BID Shkodra	Black Cave	Butrint Reform	Clean Score	Crimson Capital	Culture Corps	E-ticketing	ILab	JA - HS	
Employee Compensation and Benefits	-	6,082	-	-	-	-	-	12,167	-	-	-	-	705	6,145
Other operating expenses	705	16,571	2,948	1,513	3,255	117	-	3,060	-	-	46	-	-	4
Professional Services	-	9,475	3,231	48,652	12,832	-	21,594	738	5,762	-	5,177	-	-	-
Program Activities	130,666	146,549	28,201	1,084	15,782	25,856	-	11,810	-	24,088	-	9,257	171,486	
Grand Total	131,371	178,677	34,380	51,249	31,868	25,973	21,594	27,775	5,762	24,088	5,223	9,962	177,635	

Investments in equity*
 Unsecured loan

104,024
 214,011

*relates to Crimson Finance 25% equity contribution

FS Line	K9	Lead	Marubi	MIP	Presidential Palace	Protik	Restoration Camp	Tech crew	TID Gjirrokastira	TID Korca	TID Kruja	TID Tirana	TID Viora	Toell Testing	GRAND TOTAL
Employee Compensation and Benefits	-	161,299	-	-	-	3,182	-	-	-	15,178	5,643	9,064	-	-	219,465
Other operating expenses	-	27,260	1,295	-	24	23	-	-	2,796	5,430	24,037	1,270	551	194,292	285,199
Professional Services	-	20,516	426	610	2,000	-	53,330	-	57,715	15,170	9,259	48,702	958	-	316,145
Program Activities	45,674	129,988	195,271	-	-	57,052	-	9,312	171,748	11,991	36,613	1,096,182	14,490	-	2,333,100
Grand Total	45,674	339,063	196,992	610	2,024	60,257	53,330	9,312	232,259	47,769	75,552	1,155,218	15,999	194,292	3,153,909