



**AMERICAN UNIVERSITY IN BULGARIA**

**CONSOLIDATED FINANCIAL STATEMENTS  
as of and for the year ended June 30, 2016,  
Supplemental Information for the year ended June 30, 2016,  
Independent Auditors' Reports and  
Schedule of Findings and Questioned Costs  
for the year ended June 30, 2016**

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Trustees of the American University in Bulgaria

1. We have audited the accompanying consolidated statements of the American University in Bulgaria (the "University"), which comprise the consolidated statement of financial position as of June 30, 2016 and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility For the Consolidated Financial Statements*

2. Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in paragraph 4 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 (the U.S. Government Auditing Standards). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

4. Although we have periodic quality control reviews by other Deloitte offices as well as by the Institute of Certified Public Accountants of Bulgaria (ICPA) and the Commission for Public Oversight of Statutory Auditors of Bulgaria (CPOSA), we did not have an external peer review by an unaffiliated audit organization as required in Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards since no such program is enrolled in the Republic of Bulgaria 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 as well in the quality control review program of ICPA and CPOSA which require Deloitte Audit OOD to be subject every three years to an extensive quality control review by partners and managers from other Deloitte affiliate offices and by members of ICPA, respectively. The objectives of the internal quality control review to which Deloitte Audit OOD is subject to are similar to those required by Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards. In addition we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards specific to those standards. However, our current continuing education program provides for at least 80 hours of continuing education and training every two years in relevant auditing and accounting standards, including US GAAP.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated 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 University'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 consolidated financial statements.
6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

7. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

*Other matters*

*Other information*

8. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying *Schedule of Expenditures of Federal Awards* is presented for purpose of additional analysis as required by Office of Management and Budget Circular A-133 ("OMB Circular A-133") and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

9. In accordance with U.S. Government Auditing Standards, we have also issued our report dated September 14, 2016 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of such testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with U.S. Government Auditing Standards in considering University's internal control over financial reporting and compliance.

*Deloitte Audit*  
Deloitte Audit OOD

September 14, 2016  
Sofia, Bulgaria

## Consolidated Statements of Financial Position as of June 30, 2016 and 2015

	<i>Note</i>	<b>June 30, 2016</b> USD'000	<b>June 30, 2015</b> USD'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	7,440	6,982
Accounts receivable and prepayments	4	293	371
Contributions receivable	5	2,935	3,209
Inventories		244	228
<b>Subtotal current assets</b>		<b>10,912</b>	<b>10,790</b>
<b>Long-term assets</b>			
Long-term contributions receivable	5	124	2,672
Investments	6	22,472	23,649
Property, plant & equipment, and intangible assets	7	32,927	34,279
Other long-term assets	8	331	329
<b>Subtotal long term assets</b>		<b>55,854</b>	<b>60,929</b>
<b>TOTAL ASSETS</b>		<b>66,766</b>	<b>71,719</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Short-term borrowings and current portion of long-term debt	9	833	1,444
Accounts payable	10	263	260
Accrued liabilities and current portion of retirement benefits	11	443	356
Deferred revenue and other liabilities	12	751	855
<b>Subtotal current liabilities</b>		<b>2,290</b>	<b>2,915</b>
<b>Long-term liabilities</b>			
Long-term debt	13	6,619	7,441
Retirement benefit provision	14	169	166
<b>Subtotal long-term liabilities</b>		<b>6,788</b>	<b>7,607</b>
<b>TOTAL LIABILITIES</b>		<b>9,078</b>	<b>10,522</b>
<b>Net assets</b>			
Unrestricted	15	11,446	10,810
Temporarily restricted	16	39,484	43,778
Permanently restricted		6,758	6,609
<b>TOTAL NET ASSETS</b>		<b>57,688</b>	<b>61,197</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>66,766</b>	<b>71,719</b>

Signed on behalf of the American University in Bulgaria:


  
Date: September 14, 2016

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statements of Activities for the years ended June 30, 2016 and 2015

	Year ended June 30, 2016			Year ended June 30, 2015		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>REVENUES</b>						
<b>UNDERGRADUATE PROGRAM</b>						
Tuition	10,213	-	-	10,131	-	-
Institutionally-Funded Scholarships	(1,934)	-	-	(1,918)	-	-
Externally-Funded Scholarships	(2,577)	-	-	(2,462)	-	-
	5,702	-	-	5,751	-	-
Interest on Student Loans	13	-	-	16	-	-
Other Student Fees, net of 10/9 externally-funded scholarships	561	-	-	546	-	-
<b>SUBTOTAL UNDERGRADUATE PROGRAM</b>	<b>6,276</b>	<b>-</b>	<b>-</b>	<b>6,313</b>	<b>-</b>	<b>-</b>
<b>CONTRIBUTIONS AND GRANTS</b>						
Federal Grants	-	22	-	-	6	-
Private Gifts and Grants	154	528	138	126	1,187	144
Release from Restrictions, net	3,250	(3,250)	-	3,483	(3,483)	-
<b>SUBTOTAL CONTRIBUTIONS AND GRANTS</b>	<b>3,404</b>	<b>(2,700)</b>	<b>138</b>	<b>3,609</b>	<b>(2,290)</b>	<b>144</b>
<b>ENDOWMENT INCOME DISTRIBUTED</b>	<b>690</b>	<b>(690)</b>	<b>-</b>	<b>650</b>	<b>(650)</b>	<b>-</b>
<b>OUTREACH ACTIVITIES</b>						
English Language Institute	328	-	-	417	-	-
Conferences and Institutes/ External Events	256	-	-	228	-	-
Elieff Center Services	93	-	-	76	-	-
Center for European Programs	8	(150)	-	126	(121)	-
External Projects	17	(13)	-	138	(140)	-
Graduate Programs	306	-	-	266	-	-
<b>SUBTOTAL OUTREACH ACTIVITIES</b>	<b>1,008</b>	<b>(163)</b>	<b>-</b>	<b>1,251</b>	<b>(261)</b>	<b>990</b>
<b>AUXILIARY ACTIVITIES</b>						
Bookstore, net of 1/1 externally-funded scholarships	112	-	-	139	-	-
Residence Life, net of 23/21 externally-funded scholarships	1,134	-	-	1,123	-	-
Dining Services, net of 7/5 externally-funded scholarships	392	-	-	375	-	-
<b>SUBTOTAL AUXILIARY ACTIVITIES</b>	<b>1,638</b>	<b>-</b>	<b>-</b>	<b>1,637</b>	<b>-</b>	<b>-</b>
<b>OTHER REVENUES</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUES</b>	<b>13,070</b>	<b>(3,553)</b>	<b>138</b>	<b>13,528</b>	<b>(3,201)</b>	<b>144</b>
			<b>9,655</b>			<b>10,471</b>

## Consolidated Statements of Activities for the years ended June 30, 2016 and 2015

	Year ended June 30, 2016			Year ended June 30, 2015		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
EXPENSES	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>EDUCATION AND GENERAL</b>						
Instruction and Research	3,672	-	-	3,780	-	-
Academic Support	1,619	-	-	1,513	-	-
Student Services	869	-	-	853	-	-
<b>SUBTOTAL EDUCATION AND GENERAL</b>	<b>6,160</b>	<b>-</b>	<b>-</b>	<b>6,146</b>	<b>-</b>	<b>-</b>
<b>DEVELOPMENT AND UNIVERSITY RELATIONS</b>						
	497	-	-	408	-	-
<b>INSTITUTIONAL SUPPORT</b>						
Division of Finance	499	-	-	504	-	-
Physical Plant	25	-	-	(31)	-	-
Operations and Administration	1,877	-	-	2,093	-	-
<b>SUBTOTAL INSTITUTIONAL SUPPORT</b>	<b>2,401</b>	<b>-</b>	<b>-</b>	<b>2,566</b>	<b>-</b>	<b>-</b>
<b>OUTREACH ACTIVITIES</b>						
English Language Institute	364	-	-	379	-	-
Conferences and Institutes/ External Events	251	-	-	209	-	-
Blieff Center Services	193	-	-	196	-	-
Center for European Programs	70	-	-	89	-	-
Center for Visual and Performing Arts	-	-	-	2	-	-
External Projects	124	-	-	302	-	-
Graduate Programs	249	-	-	239	-	-
<b>SUBTOTAL OUTREACH ACTIVITIES</b>	<b>1,251</b>	<b>-</b>	<b>-</b>	<b>1,416</b>	<b>-</b>	<b>-</b>
<b>AUXILIARY ACTIVITIES</b>						
Bookstore	129	-	-	158	-	-
Residence Life	941	-	-	1,095	-	-
Dining Services	540	-	-	529	-	-
<b>SUBTOTAL AUXILIARY ACTIVITIES</b>	<b>1,610</b>	<b>-</b>	<b>-</b>	<b>1,782</b>	<b>-</b>	<b>-</b>
Scholarships for External Graduate Studies	115	-	-	150	-	-
Student Loans/ Fees Reversals	(33)	-	-	(75)	-	-
Other Expenses (incl. interest expenses)	376	-	-	418	-	-
<b>TOTAL EXPENSES</b>	<b>12,377</b>	<b>-</b>	<b>-</b>	<b>12,811</b>	<b>-</b>	<b>-</b>
<b>OPERATING SURPLUS (DEFICIT)</b>	<b>693</b>	<b>(3,553)</b>	<b>138</b>	<b>717</b>	<b>(3,201)</b>	<b>144</b>
<b>Endowment Drawdown</b>	<b>690</b>	<b>(690)</b>	<b>-</b>	<b>650</b>	<b>(650)</b>	<b>-</b>
<b>Endowment Income Distributed</b>	<b>(690)</b>	<b>690</b>	<b>-</b>	<b>(650)</b>	<b>650</b>	<b>-</b>
<b>Other Gains and (Losses)</b>	<b>(49)</b>	<b>(738)</b>	<b>-</b>	<b>(243)</b>	<b>572</b>	<b>-</b>
<b>CHANGE IN NET ASSETS before reclassifications</b>	<b>644</b>	<b>(4,291)</b>	<b>138</b>	<b>474</b>	<b>(2,629)</b>	<b>144</b>
<b>The accompanying notes form an integral part of these consolidated financial statements.</b>						

## Consolidated Statements of Cash Flows for the years ended June 30, 2016 and 2015

	FY16 USD'000	FY15 USD'000
<b>Cash flows from operating activities</b>		
Change in fund balance	(3,509)	(2,011)
Adjustments to change in fund balance:		
Revenue from fund-raising activities	(704)	(1,450)
Decrease (Increase) in accounts receivable, prepayments, and inventories	62	(37)
Increase (Decrease) in current liabilities and retirement benefits	-	(110)
Decrease in student loans receivable, net	16	8
(Increase) in cash deposits for student loans guarantees	(5)	(10)
Depreciation and amortization (Note 7)	2,083	2,225
In-kind donation of property, plant and equipment and investment property	(21)	(5)
In-kind donation of investment securities	(25)	(254)
<b>Net cash used in operating activities other than fund-raising</b>	<b>(2,103)</b>	<b>(1,644)</b>
Revenue from fund-raising activities	704	1,450
Decrease in contributions receivable	2,822	3,492
<b>Net cash provided by fund-raising activities</b>	<b>3,526</b>	<b>4,942</b>
<b>Net cash provided by operating activities</b>	<b>1,423</b>	<b>3,298</b>
<b>Cash flows from investing activities</b>		
Construction and purchase of property, plant and equipment (Note 7)	(723)	(507)
(Purchase) of investment securities	(2,369)	(3,206)
Sale of investment securities	2,819	4,506
Loss / (Gain) from investing activities	752	(570)
<b>Cash flow provided by investing activities</b>	<b>479</b>	<b>223</b>
<b>Cash flow from financing activities</b>		
(Decrease) in short-term borrowings	(611)	(1,903)
(Decrease) in long-term borrowing	(833)	(833)
<b>Cash flow used in financing activities</b>	<b>(1,444)</b>	<b>(2,736)</b>
<b>Increase in cash and cash equivalents for the period</b>	<b>458</b>	<b>785</b>
<b>Cash and cash equivalents at the beginning of the period (Note 3)</b>	<b>6,982</b>	<b>6,197</b>
<b>Cash and cash equivalents at the end of the period (Note 3)</b>	<b>7,440</b>	<b>6,982</b>
	FY16	FY15
Interest payments	381	439

The accompanying notes form an integral part of these consolidated financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. HISTORY AND NATURE OF THE AMERICAN UNIVERSITY IN BULGARIA**

The American University in Bulgaria (“AUBG” or “the University”) is a not-for-profit organization registered in the State of Maine. The University is exempt from US Federal income tax under Section 501C(3) of the US Internal Revenue Code.

The establishment of the University in 1991 was facilitated through the joint cooperation of the Initiative Committee established by the Republic of Bulgaria, the City of Blagoevgrad, Bulgaria and private and public funding sources. At the time of the establishment of the University, the laws of Bulgaria did not provide for the establishment of private educational institutions; therefore the University was incorporated in the Blagoevgrad Regional Courts as a Bulgarian not-for-profit organization. Legislation was subsequently enacted by the Bulgarian National Assembly recognizing the University as an institution of higher learning. Furthermore, the Bulgarian Ministry of Finance has acknowledged the status of the University as a “budget institution” enjoying exemption from some taxes and duties such as taxes on profits and certain exemptions for Value Added Tax.

The University offers undergraduate and graduate programs. The American University in Bulgaria maintains a campus located in Blagoevgrad. During academic year 2015-2016, the University enrolled 921 undergraduate students from 38 countries.

At the end of 2001, the American University Service Company (AUSC), a wholly-owned subsidiary headquartered in Sofia, Bulgaria, was established.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1. Basis of preparation**

The consolidated financial statements of the University are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for non-profit organizations. The consolidated statement of activities presents the financial activities by type of net assets related to the reporting periods.

**2.2. Use of estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Estimates are made in the areas of accounts receivable, contributions receivable, inventories, investments and retirement benefits.

**2.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of AUBG and AUSC, a wholly-owned subsidiary controlled by AUBG. Control is achieved where AUBG owns the majority voting interest, which is defined as direct or indirect ownership of fifty percent or more of the outstanding voting shares of another company.

Where necessary, adjustments are made to the financial statements of AUSC to bring the accounting policies used in line with those used by AUBG.

All significant inter-company transactions and balances between AUBG and AUSC have been eliminated in the accompanying consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4. Types of net assets**

Unrestricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants may be used at the discretion of the Board of Trustees or their designees to meet current expenditures for any purpose in achieving the primary objectives of the University.

Temporary restricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants may be used only to meet current expenditures for the purposes specifically identified by the donors or by sponsoring agencies.

Permanently restricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants are to be invested and only the income earned from the investment may be used to meet current expenditures for the purposes specifically identified by the donors or by the Board of Trustees if there are no specifically identified purposes.

**2.5. Cash and cash equivalents**

Cash includes cash on hand and bank deposits held by financial institutions that can be added to or withdrawn without limitation.

Cash equivalents are short-term, highly-liquid investments that are both readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates.

**2.6. Prepayments and advances**

Prepayments and advances represent payments to suppliers for goods and services, which have not been received by the end of the period.

**2.7. Inventories**

Inventories are recorded at the lower of cost or net realizable value. They predominantly represent supplies at the Bookstore, fuel, and goods and beverages at the canteen and cafeterias. Inventories are expensed applying weighted-average cost method.

**2.8. Student Loans Receivable**

Student Loans Portfolio is valued at market value representing the principal value of student loans less the provision for uncollectible loans. The provision percentage is based on the best management estimate. The interest income is recognized in the period when its collection is most probable.

**2.9. Accounts Receivable**

Accounts receivable represents amounts due from customers arising from transactions in the ordinary course of business. Twice a year, a complete review of all outstanding accounts receivable is made, a determination of doubtful accounts is made and allowance for bad debts is determined. This procedure is applicable to individual receivables or to groups of similar types of receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.10. Accounts Payable**

Accounts payable are obligations, the liquidation of which is reasonably expected to require the use of existing resources properly classified as current assets, or the creation of current obligation. Current liabilities include obligations arising from the acquisition of goods and services entering the operating cycle (accounts payable, taxes payable, wages payable and other miscellaneous payables) and other obligations maturing within the current operating cycle to be met through the use of current assets, or an overdraft.

**2.11. Long-term Debt**

The University's long-term debt is presented under the interest method.

Costs incurred for obtaining new loan or refinancing existing loans are deferred and amortized over the term of the respective loan, using the effective interest rate method. For better presentation, the interest expenses and costs associated with the long-term debt are presented as *Other expenses (incl. interest expenses)* in the Consolidated Statement of Activities.

**2.12. Investments**

Investments are carried at market value, and realized and unrealized gains and losses are reflected in the Statement of Activities. In accounting for investments, the University follows the guidance contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") #958-320 "Not-for-profit entities – Investments in Debt and Equity Securities" and ASC #820 "Fair Value Measurements,". Investments in equities and securities with readily determinable fair values as well as all investments in debt securities are reported at fair value as of the date of the consolidated financial statements in the statement of financial position. Fair value of investments is classified according to the Fair Value Hierarchy at Level 2 - observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities (see Note 6). Gains and losses on investments are reported in the statement of activities as increases or decreases in the respective net assets as per explicit donor stipulations or law.

**2.13. Property, plant and equipment and intangible assets**

Property, plant and equipment and intangible assets are recorded at cost when purchased or constructed, or at fair market value when acquired by gift. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Buildings	40
Office equipment	2 – 6
Vehicles	7 – 12
Furniture and fixtures	3 – 7
Library books	5 – 7
Software	2 – 5

Payments for the maintenance, repairs and minor renewals and replacements are expended as incurred; major renewals and replacements are capitalized.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.13. Property, plant and equipment and intangible assets (continued)****Impairment of long lived assets**

Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recoverable. When such indicators are present, a long-lived asset to be held and used is tested for recoverability by comparing the estimate of future undiscounted net operating cash flows expected to be generated by the use of the long-lived asset over its remaining useful life and its eventual disposition to its carrying amount. Should the carrying value of the long-lived asset exceed its estimated future undiscounted net operating cash flows, impairment is measured based on the excess of the carrying amount over the fair market value of the long-lived asset.

**2.14. Investment property held for sale**

Investment property held for sale is recognized initially according to Level 2 observable input when acquired by gift. A review for impairment of an investment property held for sale is carried out if events or changes in circumstances indicate that the carrying amount of the investment property held for sale may not be recoverable.

**2.15. Long-lived assets held and not used**

Property initially recognized as investment property held for sale that no longer meet the criteria as per FASB 360-10-45 are recognized as long-lived assets held and not used. Such assets are acquired through donations and are not used in the University's activities. Management's intention is to sell the properties and is actively marketing them. The aim of the University's management is with focused efforts to realize these properties in order to use the funds for scholarship for students.

**2.16. Contributions, gifts and grants**

The University reports contributions, gifts of cash and other assets as restricted support if they are received with donor stipulations that set purpose and time restrictions on the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. If there are no explicit donor stipulations about how long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**2.17. Pension plans**

The government of Bulgaria through its national pension plan is responsible for providing pensions for Bulgarian citizens. A regular contribution is made to the State to fund the plan. In addition, since July 1, 2004, AUBG is making a BGN 40 (USD 23 as of June 30, 2016) monthly contribution for each full-time Bulgarian employee.

**2.18. Retirement benefit provision**

In accordance with the Bulgarian Labor Code, the University owes retirement benefits to its employees. The retirement benefit for employees who have worked for the University for more than 10 years is 6 gross monthly salaries. Employees who have worked for the University for less than 10 years are entitled to 2 gross monthly salaries. The Retirement Benefit Provision represents the present value of the payable of these benefits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.19. Foreign currency translation**

The University receives the majority of its funds and incurs a significant amount of costs in United States Dollars (USD). As a result, the functional currency is considered to be the USD. The University's accounting records in Bulgaria are maintained in dual currency, both in BGN and in USD. The following exchange rates were used to translate monetary assets and liabilities denominated in BGN:

**BGN to one USD**  
**June 30, 2016     June 30, 2015**

Exchange rates	1.76169	1.74799
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Non-monetary assets and liabilities denominated in BGN are measured using historical rates in order to produce the same results in terms of functional currency that would have occurred if those items had been initially recorded in the functional currency.

**2.20. Revenue Recognition**

Tuition and fees and certain auxiliary activities revenues are recorded as revenues in the year during which the related services are provided. Funds received in advance of services provided are included in Deferred revenue.

Contributions, including unconditional promises to give, are recognized as revenue in the period pledged or received and are reported as increases in the appropriate class of net assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate.

Other revenues are recognized at the time of delivery of goods, or providing of services, irrespective of the time when the cash is received.

**2.21. Credit Risk**

Credit risk is the risk that a party involved in a financial instrument may cause financial loss to the other party by non-fulfillment of an obligation. The financial instruments that may expose the University to credit risk are the loans provided to students, as well as the receivables from students, vendors, and donors. The University is exposed to risk that the respective counterparties will not fulfill their obligations.

**2.22. Concentration of credit risk**

The University occasionally maintains deposits in excess of the insured limits. FASB ASC #825 "Financial Instruments" identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

**2.23. Exchange Rate Risk**

The exchange rate risk is the risk that the valuation of the University assets and liabilities denominated in foreign currency may change due to a change in the exchange rates of the respective currency against the Bulgarian lev. The University receives most of its donations in US Dollars. Also, major portion of the cash, receivables, liabilities, revenues, and expenses (tuition revenue, expenses for salaries of foreign staff and faculty) are denominated in US Dollars, which exposes the University to a risk related to possible fluctuations in the exchange rate of the US dollar against the Bulgarian lev. The University does not apply any specific financial instruments for exchange rate risk hedging.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.24. Interest Rate Risk**

Interest rate risk is the risk that the value of the received loans may vary due to a change in the market interest rates. The financial instrument that exposes the University to interest rate risk is the Overdraft from Raiffeisen Bank Bulgaria.

**2.25. Risk Management**

The University is exposed to various risks of loss: torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of employees and their dependents. The University manages these risks through commercial insurance.

**2.26. Fair Value Measurements**

When assets or liabilities in the financial statements are to be measured at fair value, the University 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. The University has elected not to report any existing financial assets or liabilities at fair value that are not already reported as such.

**2.27 Income tax**

The University has no uncertain tax positions taken or expected to be taken as of June 30, 2016. The University has recognized no interest or penalties related to uncertain tax positions. The University is subject to routine audits by tax authorities.

**2.28 Other comprehensive income**

The University has adopted FASB ASU 2011-05, Presentation of Comprehensive Income (Effective January 1, 2012). The update requires presentation of the comprehensive income (loss) and its components, as part of the financial statements. Comprehensive income (loss) comprises net income (loss) and other changes in equity that are excluded from net income (loss).

There are no amounts to be recognized as other comprehensive income (loss) and, accordingly, no additional disclosure is presented.

**3. CASH AND CASH EQUIVALENTS**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	USD'000	USD'000
Deposits with restrictions	4,090	3,998
Commonfund/ State Street Institutional US Gov't Money Market	1,753	2,096
Cash on hand/bank deposits	1,597	888
<b>Total</b>	<u>7,440</u>	<u>6,982</u>

Deposits with restrictions consist mainly of term deposits and debt service reserve account in relation to long-term debt agreement (details are provided in Note 13).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	June 30, 2016	June 30, 2015
	USD'000	USD'000
Deferred expenses	262	251
Prepayments and advances	16	26
Receivables from students, net of USD 18 / 20 thousand allowance	13	27
Tax receivables	2	2
Accounts receivable	-	65
<b>Total</b>	<b>293</b>	<b>371</b>

Allowances for uncollectible student fees have been calculated as 100% of amounts past due over one year.

## 5. CONTRIBUTIONS RECEIVABLE

Contributions receivable falling due within one year comprise:

	June 30, 2016	June 30, 2015
	USD'000	USD'000
America for Bulgaria Foundation	1,908	1,818
OSI Scholarships	682	675
Albanian-American Development Foundation	156	182
European Union	79	289
ASHA	56	56
Other	54	189
<b>Total</b>	<b>2,935</b>	<b>3,209</b>

Long-term contributions receivable comprise:

	June 30, 2016	June 30, 2015
	USD'000	USD'000
Albanian-American Development Foundation	85	228
America for Bulgaria Foundation	-	1,746
OSI Scholarships	-	633
Other	39	65
<b>Total</b>	<b>124</b>	<b>2,672</b>

All amounts are receivable within five years and are discounted using the interest rate for loans to non-profit organizations, for new businesses, up to 1 million Euro, contracted in Euro, published by the Bulgarian National Bank.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. INVESTMENTS

	June 30, 2016 Fair Value USD'000	June 30, 2015 Fair Value USD'000
<b>USAID Quasi – Endowment Fund</b>		
Multi-Strategy Equity Fund	8,039	9,469
High Quality Bond Fund	2,752	2,211
International Equity Fund	2,538	2,902
CFI Global Bond Fund, LLC	584	-
Equity Index Fund	486	47
Emerging Markets Investors Co.	234	454
Real Estate Securities Fund	62	52
Core Equity Fund	52	52
Global Bond Fund	-	554
<b>Subtotal USAID Quasi – Endowment Fund:</b>	<b>14,747</b>	<b>15,741</b>
<b>Pooled Endowment Fund</b>		
Multi-Strategy Equity Fund	3,827	4,702
High Quality Bond Fund	1,499	1,183
Equity Index Fund	909	75
International Equity Fund	888	1,015
Emerging Markets Investors Co.	190	594
Core Equity Fund	45	45
CFI Global Bond Fund, LLC	43	-
Real Estate Securities Fund	42	35
Global Bond Fund	-	42
<b>Subtotal Pooled Endowment Fund:</b>	<b>7,443</b>	<b>7,691</b>
<b>Other Investments:</b>	<b>282</b>	<b>217</b>
<b>Total</b>	<b>22,472</b>	<b>23,649</b>

Additionally, AUBG invested USD 1,753 thousand as of June 30, 2016 (June 30, 2015: 2,096 thousand) in *State Street Institutional US Government Money Market Fund*, included in Note 3, Cash and Cash Equivalents.

The University invests its USAID Quasi-Endowment Fund and Pooled Endowment Fund with Commonfund. The management intends to hold the investments for a period longer than one year.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the University's valuation methodologies for assets and liabilities measured at fair value.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. INVESTMENTS (continued)

The fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.

The fair value of Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as they trade infrequently or not at all.

Fair value level of investments is determined according to Fair Value Hierarchy as follows:

	Fair Value Measurement at Reporting Date			
	Using			
	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
June 30, 2016	(Level 1)	(Level 2)	(Level 3)	
USD'000	USD'000	USD'000	USD'000	
Multi-Strategy Equity Fund	11,866	-	11,866	-
High Quality Bond Fund	4,251	-	4,251	-
International Equity Fund	3,426	-	3,426	-
Equity Index Fund	1,395	-	1,395	-
CFI Global Bond Fund, LLC	627	-	627	-
Emerging Markets Investors Co	424	-	424	-
Real Estate Securities Fund	104	-	104	-
Core Equity Fund	97	-	97	-
Other Investments	282	282	-	-
<b>Total:</b>	<b>22,472</b>	<b>282</b>	<b>22,190</b>	<b>-</b>

	Fair Value Measurement at Reporting Date			
	Using			
	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
June 30, 2015	(Level 1)	(Level 2)	(Level 3)	
USD'000	USD'000	USD'000	USD'000	
Multi-Strategy Equity Fund	14,171	-	14,171	-
International Equity Fund	3,917	-	3,917	-
High Quality Bond Fund	3,394	-	3,394	-
Global Bond Fund	1,048	-	1,048	-
Emerging Markets Investors Co	596	-	596	-
Equity Index Fund	122	-	122	-
Core Equity Fund	97	-	97	-
Real Estate Securities Fund	87	-	87	-
Other Investments	217	217	-	-
<b>Total:</b>	<b>23,649</b>	<b>217</b>	<b>23,432</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**6. INVESTMENTS (continued)**

AUBG manages its endowment and quasi-endowment funds in a way which protects the real purchasing power of the endowment over time, avoids large or no increases in some years, and preserves and enhances the growth of principal. To this end, the University has adopted the “Yale Formula”, which provides annual cash distribution to the University. The endowment earnings distributed are calculated as 70% of the allowable spending in the prior fiscal year, increased by the rate of inflation, as measured by the Consumer Price Index, for the 12 months prior to the start of the fiscal year; plus 30% of the long-term spending rate of 4.5 percent (a total of 1.35 percent) applied to the four-quarter market average of the endowment, for the period ending December 31 prior to the start of the fiscal year.

AUBG invests in high quality, investment grade securities and maintains a prudent diversification in its portfolios. AUBG’s endowment fund is invested according to the following Strategic Asset Allocation (SAA) as at June 30, 2016, approved by the Board of Trustees:

	<b>Strategic Asset Allocation</b>	<b>of which USD</b>	<b>Int'l</b>
<b>Cash &amp; Money Market</b>	10%	10%	-
<b>Fixed Income</b>	20%	12%	8%
<b>Equities</b>	70%	53%	17%
	<b>100%</b>	<b>75%</b>	<b>25%</b>

Any change to the SAA must be approved by the full Board. The Investment Committee is allowed to make tactical changes to the SAA and currency allocation without seeking full board approval as long as these changes remain within the range of +/- 10% of the SAA for each asset class.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. PROPERTY, PLANT &amp; EQUIPMENT AND INTANGIBLE ASSETS

	June 30, 2016 USD'000	June 30, 2015 USD'000
<b>Land</b>	<b>3,022</b>	<b>3,022</b>
Buildings	34,360	34,360
Less: accumulated depreciation	(6,845)	(5,984)
<b>Buildings Net Book Value</b>	<b>27,515</b>	<b>28,376</b>
Office machines and equipment	4,735	4,610
Less: accumulated depreciation	(3,989)	(3,500)
<b>Office Machines and Equipment Net Book Value</b>	<b>746</b>	<b>1,110</b>
Motor vehicles	90	90
Less: accumulated depreciation	(69)	(61)
<b>Motor Vehicles Net Book Value</b>	<b>21</b>	<b>29</b>
Furniture and fixtures	2,715	2,733
Less: accumulated depreciation	(2,133)	(1,976)
<b>Furniture and Fixtures Net Book Value</b>	<b>582</b>	<b>757</b>
Library books	827	793
Less: accumulated depreciation	(707)	(674)
<b>Library Books Net Book Value</b>	<b>120</b>	<b>119</b>
Other intangible assets	1,452	1,448
Less: accumulated amortization	(1,284)	(1,039)
<b>Other Intangible Assets Net Book Value</b>	<b>168</b>	<b>409</b>
<b>Assets under construction</b>	<b>753</b>	<b>457</b>
<b>Total Book Value</b>	<b>47,954</b>	<b>47,513</b>
<b>Less: Depreciation and Amortization</b>	<b>(15,027)</b>	<b>(13,234)</b>
<b>Total Net Book Value</b>	<b>32,927</b>	<b>34,279</b>
	<b>FY16</b>	<b>FY15</b>
	USD'000	USD'000
<b>Depreciation expenses:</b>		
Property, Plant and Equipment	1,837	1,900
Intangible Assets	246	325
<b>Total</b>	<b>2,083</b>	<b>2,225</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**8. OTHER LONG-TERM ASSETS**

Other long-term assets include:

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
	USD'000	USD'000
Long lived assets held, not used	295	282
Cash deposits for student loans guarantees, net	23	18
Student loans receivable, net	13	29
<b>Total</b>	<b>331</b>	<b>329</b>

**9. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM DEBT**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
	USD'000	USD'000
Current portion of long-term debt/ OPIC (note 13)	833	833
Overdraft/ Raiffeisen Bank (max. amount: USD 2.2 million)	-	496
Short-term loan/ Raiffeisen Bank	-	115
<b>Total</b>	<b>833</b>	<b>1,444</b>

**10. ACCOUNTS PAYABLE**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
	USD'000	USD'000
Tax and social security payables	109	107
OPIC loan interest payable	102	114
Payables to vendors and others	42	28
Payables to undergraduate students	10	11
<b>Total</b>	<b>263</b>	<b>260</b>

**11. ACCRUED LIABILITIES AND CURRENT PORTION OF RETIREMENT BENEFITS**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
	USD'000	USD'000
Accrued vacation	175	137
Current portion of retirement benefit provision (Note 14)	174	176
Accrued expenses	94	43
<b>Total</b>	<b>443</b>	<b>356</b>

**12. DEFERRED REVENUE AND OTHER LIABILITIES**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
	USD'000	USD'000
Deferred revenue from undergraduate students	550	606
Advance payments for seminars	93	118
Advance ELI payments	75	102
Deferred revenue from graduate students	33	29
<b>Total</b>	<b>751</b>	<b>855</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2016	June 30, 2015
	USD'000	USD'000
Principal amount	7,500	8,333
Less unamortized cost	(48)	(59)
Less current portion (Note 9)	(833)	(833)
<b>Long-term debt, net</b>	<b>6,619</b>	<b>7,441</b>

Long-term debt represents a loan from the Overseas Private Investment Corporation (OPIC) amounting up to USD 10 million for the construction of AUBG Student Center. As collateral, AUBG pledged 24,000 units in USAID Endowment Multi-Strategy Equity Fund, 24,000 units in USAID Endowment International Equity Fund, and 51,000 units in USAID Endowment High Quality Bond Fund at the total amount of USD 9,690 thousand as of June 30, 2016. In addition, AUBG established a Debt Service Reserve Account funded with an amount equal to the aggregate amount of Debt Service for the immediately succeeding six-month period. The loan will be repaid in full by 2025.

The total amount of interest cost incurred for the year ended June 30, 2016 is USD 366 thousand (year ended June 30, 2015: USD 407 thousand).

The amounts payable for each of the following five years are as follows:

Year ended	Principal payable (USD '000)	Interests payable (USD '000)
June 30, 2017	833	330
June 30, 2018	833	291
June 30, 2019	833	252
June 30, 2020	833	214
June 30, 2021	833	175

## 14. RETIREMENT BENEFIT PROVISION

The calculations of the Retirement Benefit Provision are based on the following assumptions:

	June 30, 2016	June 30, 2015
	USD'000	USD'000
Discount rate		
<i>(interest rate for 10-year Government Bonds, source: Bulgarian National Bank)</i>	2.41%	2.04%
Turnover rate	10%	10%

The Retirement Benefits are expected to be paid:

	June 30, 2016	June 30, 2015
	USD'000	USD'000
<b>Current liability (within 1 year (Note 11))</b>	<b>174</b>	<b>176</b>
<b>Long-term liability:</b>		
2 years	26	32
3 years	41	20
4 years	20	33
5 years	12	16
More than 5 years	70	65
<b>Long-term liability</b>	<b>169</b>	<b>166</b>
<b>Total:</b>	<b>343</b>	<b>342</b>

The expense for retirement benefits recognized in the consolidated statement of activities for the year ended June 30, 2016 is USD 1 thousand (FY15: zero).

## 15. UNRESTRICTED NET ASSETS

	June 30, 2016	June 30, 2015
	USD'000	USD'000
<b>Unrestricted net assets as of the beginning of the year</b>	<b>10,810</b>	<b>10,313</b>
Reclassifications	(8)	23
Change in unrestricted assets	644	474
<b>Unrestricted net assets as of the end of the period</b>	<b>11,446</b>	<b>10,810</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. TEMPORARILY RESTRICTED NET ASSETS

	June 30, 2015 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications/ Revaluation	June 30, 2016 Balance
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
USAID Endowment Fund	17,073	-	-	(690)	-	(543)	-	15,840
America for Bulgaria Foundation	14,744	401	(1,688)	(200)	-	119	-	13,376
ASHA Grants	4,773	-	-	(183)	(45)	-	-	4,545
OSI Scholarships	1,796	48	(539)	-	-	-	-	1,305
Balkanski Family	804	-	-	(25)	-	-	-	779
Board Designated Endowment	696	3	-	-	-	(19)	-	680
Athanas Zamphiroff	588	-	(12)	-	-	(64)	-	512
Anna Tchaprachikoff	717	(137)	-	(115)	-	(117)	-	348
Novartis/ Carl Djerassi naming gift	318	-	-	(8)	-	-	-	310
Albanian-American Development Foundation	409	(18)	(151)	-	-	-	-	240
Philippe Bertherat - Student Center gift	188	-	-	(5)	-	-	-	183
Elvin Guri Scholarships	158	26	(26)	-	-	-	-	158
European Union	280	(90)	-	(41)	-	-	(2)	147
Dimi Panitza	123	-	-	(3)	-	-	-	120
OSI New Opportunity Scholarships	176	-	(69)	(1)	-	-	-	106
20th Anniversary Scholarship	71	-	-	-	-	-	-	71
Raiffeisenbank Scholarships	77	-	(10)	-	-	-	-	67
Telerik	72	(2)	(15)	-	-	-	-	55
Other	715	107	(108)	(24)	(8)	(39)	(1)	642
<b>Total</b>	<b>43,778</b>	<b>338</b>	<b>(2,618)</b>	<b>(1,295)</b>	<b>(53)</b>	<b>(663)</b>	<b>(3)</b>	<b>39,484</b>

## 17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 14, 2016, which is the date the consolidated financial statements were available to be issued and has concluded that there were no such events that require adjustment to the consolidated financial statements or disclosure to the notes to the accompanying consolidated financial statements.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended June 30, 2016*

FDA Number	Grant or agency/ Program title	Grant number	Expenditure FY16 USD'000	Capitalized cost FY16 USD'000	Total FY16 USD'000
98. Unknown	US Agency for International Development (USAID) Endowment fund for achieving long-term financial sustainability	183-A-00-02-00102-00			
98. Unknown	American Schools and Hospitals Abroad (ASHA/ USAID) Furniture & video equipment for Residence Halls I & II,	AID-ASHA-G-12-00007	690	-	690
98. Unknown	Data storage equipment US Embassy, Bulgaria Grant for AUBG Musical performances	S-BU800-15-GR010	11	45	56
			3	-	3
	<b>Total Expenditure of Federal Awards</b>		<b>704</b>	<b>45</b>	<b>749</b>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended June 30, 2016***Note 1: Basis of preparation**

The accompanying schedule of expenditures and capitalized cost of federal awards includes the federal grant activity of the American University in Bulgaria and is presented in accordance with the Generally Accepted Accounting Principles as used in the University's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in or used in the presentation of the University's financial statements. As expenditures are incurred in local currency (BGN) and translated to USD, foreign exchange differences may occur.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **To The Board of Trustees of the American University In Bulgaria**

1. We have audited, in accordance with the 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 (the U.S. Government Auditing Standards), except as discussed in paragraph Auditor's Responsibility of the Independent Auditor's Report the consolidated financial statements of the American University in Bulgaria (the "University"), which comprise the consolidated statement of financial position as of June 30, 2016 and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the consolidated financial statements and we have issued our report thereon dated September 14, 2016.

#### *Internal Control Over Financial Reporting*

2. In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.
3. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
4. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### *Compliance and Other Matters*

5. As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of this Report*

6. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control and compliance. This report is intended solely for the information and use of the Board of Trustees, the Audit Committee, University's Management, and U.S. Federal awarding agencies, accordingly this communication is not suitable for any other purpose.

Deloitte Audit

Deloitte Audit OOD

September 14, 2016  
Sofia, Bulgaria

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**To The Board of Trustees  
of the American University in Bulgaria**

***Report on Compliance for Each Major Federal Program***

1. We have audited the American University in Bulgaria's (the "University") compliance with the types of compliance requirements, described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of University's major federal programs for the year ended June 30, 2016. University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

2. Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

3. Our responsibility is to express an opinion on compliance for each of University's major federal programs based on our audit of the types of compliance requirements referred to above. Except as discussed in paragraph 4 below, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.
4. Although we have periodic quality control reviews by other Deloitte offices as well as by the Institute of Certified Public Accountants of Bulgaria (ICPA) and the Commission for Public Oversight of Statutory Auditors of Bulgaria (CPOSA), we did not have an external peer review by an unaffiliated audit organization as required in Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards since no such program is enrolled in the Republic of Bulgaria 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 as well in the quality control review program of ICPA and CPOSA which require Deloitte Audit OOD to be subject every three years to an extensive quality control review by partners and managers from other Deloitte affiliate offices and by members of ICPA, respectively. The objectives of the internal quality control review to which Deloitte Audit OOD is subject to are similar to those required by Chapter 3, paragraph 3.96 of U.S. Government Auditing Standards. In addition we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards specific to those standards. However, our current continuing education program provides for at least 80 hours of continuing education and training every two years in relevant auditing and accounting standards, including US GAAP.

5. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of University's compliance.

*Opinion on Each Major Federal Program*

6. In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

7. Management of University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.
8. *A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
9. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
10. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deloitte Audit  
Deloitte Audit OOD

September 14, 2016  
Sofia, Bulgaria

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS****SECTION I – SUMMARY OF AUDITOR'S RESULTS**

<b><i>Financial Statements</i></b>			
Type of auditor's report issued:		Unmodified	
Internal control over financial reporting:			
• Material weakness(es) identified	yes	X	no
• Significant deficiency(ies) identified	yes	X	none reported
Noncompliance material to financial statements noted	yes	X	no
<b><i>Federal Awards:</i></b>			
Internal control over major federal programs:			
• Material weakness(es) identified <sup>n7</sup>	yes	X	no
• Significant deficiency(ies) identified <sup>n7</sup>	yes	X	none reported
Type of auditor's report issued on compliance for major federal programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	yes	X	no
<b><i>Identification of major programs:</i></b>			
Grant Number:		Name of Federal Program:	
183-A-00-02-00102-00		U.S. Agency for International Development	
Dollar threshold used to distinguish between type A and type B programs:	\$	300,000	
Auditee qualified as low-risk auditee?	yes	X	no