



AMERICAN UNIVERSITY IN BULGARIA

**CONSOLIDATED FINANCIAL STATEMENTS
as of and for the year ended June 30, 2017,
Supplemental Information for the year ended June 30, 2017,
Independent Auditors' Reports and
Schedule of Findings and Questioned Costs
for the year ended June 30, 2017**

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, 2017 and the related consolidated statements of activities and 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.

Auditor's 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 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.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност, регистрирано в Обединеното кралство („ДТТЛ“), както и към мрежата от дружества - членове и свързаните с тях дружества. ДТТЛ и всяко дружество - член са юридически самостоятелни и независими лица. ДТТЛ (наричано също „Делойт Глобал“) не предоставя услуги на клиенти. Моля, посетете www.deloitte.com/bg/about, за да научите повече за нашата глобална мрежа от дружества-членове.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee („DTTL“), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as „Deloitte Global“) does not provide services to clients. Please see www.deloitte.com/bg/about to learn more about our global network of member firms.

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 assessing the accounting principles used and significant 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 reasonable 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, 2017, 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

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 18, 2017 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 18, 2017
Sofia, Bulgaria

Consolidated Statements of Financial Position as of June 30, 2017 and 2016

	Note	June 30, 2017 USD'000	June 30, 2016 USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	8,918	7,440
Accounts receivable and prepayments	4	344	293
Contributions receivable	5	1,219	2,935
Inventories		218	244
Subtotal current assets		10,699	10,912
Long-term assets			
Long-term contributions receivable	5	1,448	124
Investments	6	24,393	22,472
Property, plant & equipment, and intangible assets	7	31,773	32,964
Other long-term assets	8	324	331
Subtotal long term assets		57,938	55,891
TOTAL ASSETS		68,637	66,803
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term borrowings and current portion of long-term debt	9	833	833
Accounts payable	10	286	263
Accrued liabilities and current portion of retirement benefits	11	388	443
Deferred revenue and other liabilities	12	842	751
Subtotal current liabilities		2,349	2,290
Long-term liabilities			
Long-term debt	13	5,796	6,619
Retirement benefit provision	14	197	169
Subtotal long-term liabilities		5,993	6,788
TOTAL LIABILITIES		8,342	9,078
Net assets			
Unrestricted	15	12,409	11,483
Temporarily restricted	16	41,069	39,484
Permanently restricted		6,817	6,758
TOTAL NET ASSETS		60,295	57,725
TOTAL LIABILITIES AND NET ASSETS		68,637	66,803

Signed on behalf of the American University in Bulgaria:



Date: September 18, 2017

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

Consolidated Statements of Activities for the years ended June 30, 2017 and 2016

American University in Bulgaria

REVENUES	Year ended June 30, 2017			Year ended June 30, 2016		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
UNDERGRADUATE PROGRAM						
Tuition	10,047	-	-	10,213	-	-
Institutionally-Funded Scholarships	(1,990)	-	-	(1,934)	-	-
Externally-Funded Scholarships	(2,511)	-	-	(2,577)	-	-
	5,546	-	-	5,702	-	-
Interest on Student Loans	25	-	-	13	-	-
Other Student Fees, net of 10/10 externally-funded scholarships	550	-	-	561	-	-
SUBTOTAL UNDERGRADUATE PROGRAM	6,121	-	-	6,276	-	-
CONTRIBUTIONS AND GRANTS						
Federal Grants	161	335	-	154	22	-
Private Gifts and Grants	3,523	2,423	59	3,250	528	138
Release from Restrictions, net	(3,523)	(3,523)	-	(3,250)	(3,250)	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	3,684	(765)	59	3,404	(2,700)	138
ENDOWMENT INCOME DISTRIBUTED	720	(720)	-	690	(690)	-
OUTREACH ACTIVITIES						
English Language Institute	259	-	-	328	-	-
Conferences and Institutes/ External Events	295	-	-	256	-	-
Elieff Center Services & Executive Education	81	-	-	93	-	-
Center for European Programs	6	(55)	-	8	(150)	-
External Projects	14	(14)	-	17	(13)	-
Graduate Programs	308	-	-	306	-	-
SUBTOTAL OUTREACH ACTIVITIES	963	(69)	-	1,008	(163)	-
AUXILIARY ACTIVITIES						
Bookstore, net of 2/1 externally-funded scholarships	86	-	-	112	-	-
Residence Life, net of 26/23 externally-funded scholarships	1,024	-	-	1,134	-	-
Dining Services, net of 8/7 externally-funded scholarships	424	-	-	392	-	-
SUBTOTAL AUXILIARY ACTIVITIES	1,534	-	-	1,638	-	-
OTHER REVENUES	163	-	-	54	-	-
TOTAL REVENUES	13,185	(1,554)	59	13,070	(3,553)	138
			11,690			9,655

Consolidated Statements of Activities for the years ended June 30, 2017 and 2016

American University in Bulgaria

EXPENSES	Year ended June 30, 2017			Year ended June 30, 2016		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
EDUCATION AND GENERAL						
Instruction and Research	3,781	-	-	3,672	-	-
Academic Support	1,442	-	-	1,619	-	-
Student Services	874	-	-	869	-	-
SUBTOTAL EDUCATION AND GENERAL	6,097	-	-	6,160	-	-
DEVELOPMENT AND UNIVERSITY RELATIONS						
	448	-	-	497	-	-
INSTITUTIONAL SUPPORT						
Division of Finance	446	-	-	499	-	-
Physical Plant	43	-	-	25	-	-
Operations and Administration	2,316	-	-	1,877	-	-
SUBTOTAL INSTITUTIONAL SUPPORT	2,805	-	-	2,401	-	-
OUTREACH ACTIVITIES						
English Language Institute	304	-	-	364	-	-
Conferences and Institutes/ External Events	273	-	-	251	-	-
Elieff Center Services & Executive Education	219	-	-	193	-	-
Center for European Programs	33	-	-	70	-	-
External Projects	15	-	-	124	-	-
Graduate Programs	285	-	-	249	-	-
SUBTOTAL OUTREACH ACTIVITIES	1,129	-	-	1,251	-	-
AUXILIARY ACTIVITIES						
Bookstore	91	-	-	129	-	-
Residence Life	844	-	-	941	-	-
Dining Services	513	-	-	540	-	-
SUBTOTAL AUXILIARY ACTIVITIES	1,448	-	-	1,610	-	-
Scholarships for External Graduate Studies	94	-	-	115	-	-
Student Loans/ Fees Reversals	(36)	-	-	(33)	-	-
Other Expenses (incl. interest expenses)	339	-	-	376	-	-
TOTAL EXPENSES	12,324	-	-	12,377	-	-
OPERATING SURPLUS (DEFICIT)	861	(1,554)	59	693	(3,553)	138
Endowment Drawdown	720	(720)	-	690	(690)	-
Endowment Income Distributed	(720)	720	-	(690)	690	-
Other Gains and (Losses)	(4)	3,208	-	(49)	(738)	-
CHANGE IN NET ASSETS before reclassifications	857	1,654	59	644	(4,291)	138
The accompanying notes form an integral part of these consolidated financial statements.						

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

	FY17 USD'000	FY16 USD'000
Cash flows from operating activities		
Change in net assets	2,570	(3,509)
Adjustments to change in net assets:		
Revenue from fund-raising activities	(2,930)	(704)
(Increase) Decrease in accounts receivable, prepayments, and inventories	(25)	62
Increase in current liabilities and retirement benefits	97	-
Decrease in student loans receivable, net	5	16
Decrease (Increase) in cash deposits for student loans guarantees	2	(5)
Depreciation and amortization (Note 7)	1,712	2,083
In-kind donation of property, plant and equipment and investment property	(14)	(21)
In-kind donation of investment securities	-	(25)
Net cash provided by (used in) operating activities other than fund-raising	1,417	(2,103)
Revenue from fund-raising activities	2,930	704
Decrease in contributions receivable	392	2,822
Net cash provided by fund-raising activities	3,322	3,526
Net cash provided by operating activities	4,739	1,423
Cash flows from investing activities		
Construction and purchase of property, plant and equipment (Note 7)	(508)	(723)
(Purchase) of investment securities	(4,404)	(2,369)
Sale of investment securities	5,747	2,819
(Gain) Loss from investing activities	(3,263)	752
Cash flow (used in) provided by investing activities	(2,428)	479
Cash flow from financing activities		
(Decrease) in short-term borrowings	-	(611)
(Decrease) in long-term borrowing	(833)	(833)
Cash flow used in financing activities	(833)	(1,444)
Increase in cash and cash equivalents for the period	1,478	458
Cash and cash equivalents at the beginning of the period (Note 3)	7,440	6,982
Cash and cash equivalents at the end of the period (Note 3)	8,918	7,440
	FY17	FY16
Interest payments	339	381

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. In the Spring semester of academic year 2016-2017, the University enrolled 887 undergraduate students from 40 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 activities by function and 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, property, plant & equipment and intangible assets, 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.

The opening balances of *Property, plant & equipment, and intangible assets* and *Unrestricted net assets* as of June 30, 2016 have been increased by USD 37 thousand, representing a correction of an error in the consolidated value of buildings. The correction is made in order to present the realizable value of the buildings.

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 effective 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 expensed as incurred; major renewals and replacements are capitalized.

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, 2017) 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, 2017	June 30, 2016
Exchange rates	1.71384	1.76169

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, 2017. 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 of 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, 2017</u>	<u>June 30, 2016</u>
	USD'000	USD'000
Deposits with restrictions	3,846	4,090
Cash on hand/bank deposits	2,933	1,597
Commonfund/ State Street Institutional US Gov't Money Market	2,139	1,753
Total	<u>8,918</u>	<u>7,440</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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD'000	USD'000
Deferred expenses	256	262
Prepayments and advances	40	16
Accounts receivable	39	-
Receivables from students, net of USD 21 / 18 thousand allowance	7	13
Tax receivables	2	2
Total	<u>344</u>	<u>293</u>

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 of:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD'000	USD'000
America for Bulgaria Foundation	500	1,908
ASHA	300	56
OSI Scholarships	250	682
Albanian-American Development Foundation	89	156
Other	80	133
Total	<u>1,219</u>	<u>2,935</u>

Long-term contributions receivable comprise of:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD'000	USD'000
America for Bulgaria Foundation	1,390	-
Albanian-American Development Foundation	44	85
Other	14	39
Total	<u>1,448</u>	<u>124</u>

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, 2017 Fair Value USD'000	June 30, 2016 Fair Value USD'000
USAID Quasi – Endowment Fund		
Multi-Strategy Equity Fund	8,779	8,039
SSgA MSCI EAFE Index	2,978	-
High Quality Bond Fund	2,445	2,752
SSgA MSCI Emerging Markets Fund	663	-
Equity Index Fund	572	486
Core Equity Fund	61	52
Emerging Markets Investors Co.	-	234
International Equity Fund	-	2,538
CFI Global Bond Fund, LLC	-	584
Real Estate Securities Fund	-	62
Subtotal USAID Quasi – Endowment Fund:	15,498	14,747
Pooled Endowment Fund		
Multi-Strategy Equity Fund	4,558	3,827
High Quality Bond Fund	1,416	1,499
Equity Index Fund	1,069	909
SSgA MSCI EAFE Index	1,042	-
SSgA MSCI Emerging Markets Fund	404	-
Core Equity Fund	53	45
Emerging Markets Investors Co.	-	190
International Equity Fund	-	888
CFI Global Bond Fund, LLC	-	43
Real Estate Securities Fund	-	42
Subtotal Pooled Endowment Fund:	8,542	7,443
Other Investments:	353	282
Total	24,393	22,472

Additionally, AUBG invested USD 2,139 thousand as of June 30, 2017 (June 30, 2016: 1,753 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 (Level 1) USD'000	Significant Other Observable Inputs (Level 2) USD'000	Significant Unobservable Inputs (Level 3) USD'000	
June 30, 2017 USD'000				
Multi-Strategy Equity Fund	13,337	-	13,337	-
SSgA MSCI EAFE Index	4,020	-	4,020	-
High Quality Bond Fund	3,861	-	3,861	-
Equity Index Fund	1,641	-	1,641	-
SSgA MSCI Emerging Markets Fund	1,067	-	1,067	-
Core Equity Fund	114	-	114	-
Emerging Markets Investors Co	-	-	-	-
International Equity Fund	-	-	-	-
CFI Global Bond Fund, LLC	-	-	-	-
Real Estate Securities Fund	-	-	-	-
Other Investments	353	-	-	-
Total:	24,393	353	24,040	-

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

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, 2017, approved by the Board of Trustees:

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

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 & EQUIPMENT AND INTANGIBLE ASSETS

	June 30, 2017 USD'000	June 30, 2016 USD'000
Land	3,022	3,022
Buildings	35,373	34,397
Less: accumulated depreciation	(7,731)	(6,845)
Buildings Net Book Value	27,642	27,552
Office machines and equipment	4,691	4,735
Less: accumulated depreciation	(4,395)	(3,989)
Office Machines and Equipment Net Book Value	296	746
Motor vehicles	90	90
Less: accumulated depreciation	(78)	(69)
Motor Vehicles Net Book Value	12	21
Furniture and fixtures	2,709	2,715
Less: accumulated depreciation	(2,265)	(2,133)
Furniture and Fixtures Net Book Value	444	582
Library books	870	827
Less: accumulated depreciation	(739)	(707)
Library Books Net Book Value	131	120
Other intangible assets	1,455	1,452
Less: accumulated amortization	(1,375)	(1,284)
Other Intangible Assets Net Book Value	80	168
Assets under construction	146	753
Total Book Value	48,356	47,991
Less: Depreciation and Amortization	(16,583)	(15,027)
Total Net Book Value	31,773	32,964
	FY17	FY16
	USD'000	USD'000
Depreciation expenses:		
Property, Plant and Equipment	1,621	1,837
Intangible Assets	91	246
Total	1,712	2,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. OTHER LONG-TERM ASSETS

Other long-term assets include:

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Long lived assets held, not used	295	295
Cash deposits for student loans guarantees, net	21	23
Student loans receivable, net	8	13
Total	324	331

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

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Current portion of long-term debt/ OPIC (note 13)	833	833
Total	833	833

10. ACCOUNTS PAYABLE

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Tax and social security payables	130	109
OPIC loan interest payable	91	102
Payables to vendors and others	43	42
Payables to undergraduate students	22	10
Total	286	263

11. ACCRUED LIABILITIES AND CURRENT PORTION OF RETIREMENT BENEFITS

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Accrued vacation	197	175
Current portion of retirement benefit provision (Note 14)	138	174
Accrued expenses	53	94
Total	388	443

12. DEFERRED REVENUE AND OTHER LIABILITIES

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Deferred revenue from undergraduate students	569	550
Advance payments for seminars	173	93
Advance ELI payments	66	75
Deferred revenue from graduate students	34	33
Total	842	751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Principal amount	6,667	7,500
Less unamortized cost	(38)	(48)
Less current portion (Note 9)	(833)	(833)
Long-term debt, net	5,796	6,619

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 and 100,000 units in USAID Endowment High Quality Bond Fund at the total amount of USD 9,445 thousand as of June 30, 2017. 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, 2017 is USD 329 thousand (year ended June 30, 2016: USD 366 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, 2018	833	291
June 30, 2019	833	252
June 30, 2020	833	214
June 30, 2021	833	175
June 30, 2022	833	145

14. RETIREMENT BENEFIT PROVISION

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

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Discount rate		
(interest rate for 10-year Government Bonds, source: Bulgarian National Bank)	1.78%	2.41%
Turnover rate	10%	10%

The Retirement Benefits are expected to be paid:

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Current liability (within 1 year (Note 11))	138	174
Long-term liability:		
2 years	54	26
3 years	28	41
4 years	22	20
5 years	10	12
More than 5 years	83	70
Long-term liability	197	169
Total:	335	343

The expense for retirement benefits recognized in the consolidated statement of activities for the year ended June 30, 2017 is negative USD 8 thousand (FY16: USD 1 thousand).

15. UNRESTRICTED NET ASSETS

	June 30, 2017	June 30, 2016
	USD'000	USD'000
Unrestricted net assets as of the beginning of the year	11,483	10,810
Reclassifications and corrections	69	29
Change in unrestricted assets	857	644
Unrestricted net assets as of the end of the period	12,409	11,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. TEMPORARILY RESTRICTED NET ASSETS

	June 30, 2016 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications/ Revaluation	June 30, 2017 Balance
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
USAID Quasi - Endowment Fund	15,840	-	-	(720)	-	2,071	-	17,191
America for Bulgaria Foundation	13,376	1,976	(1,826)	(594)	-	81	-	13,013
ASHA Grants	4,545	300	-	(172)	-	-	(1)	4,672
OSI Scholarships	1,411	18	(421)	(1)	-	-	-	1,007
Athanas Zamphiroff	503	(14)	(8)	-	-	290	-	771
Board Designated Endowment	680	-	-	-	-	85	-	765
Balkanski Family	779	-	-	(25)	-	-	-	754
Anna Tchaprachikoff	348	(64)	-	(94)	-	529	-	719
Novartis/ Carl Djerassi naming gift	310	-	-	(9)	-	-	-	301
Stiftung Usine Foundation	-	300	-	-	-	-	-	300
Philippe Bertherat	183	-	-	(5)	-	-	-	178
Albanian-American Development Foundation	240	10	(114)	-	-	-	-	136
Dimi Panitza	120	5	-	(3)	(5)	-	-	117
Elvin Guri Scholarships	158	-	(44)	-	-	-	-	114
20th Anniversary Scholarship	71	-	-	-	-	-	-	71
Raiffeisenbank Scholarships	67	4	(9)	-	-	-	-	62
Other	853	142	(137)	(68)	(9)	185	(68)	898
Total	39,484	2,677	(2,559)	(1,691)	(14)	3,241	(69)	41,069

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 18, 2017, which is the date the consolidated financial statements were available to be issued and the management 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. In August 2017, AUBG prepaid USD 3,333 thousand of its long-term loan, which represents a non-adjusting subsequent event.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2017*

FDA Number	Grant or agency/ Program title	Grant number	Expenditure FY17 USD'000	Capitalized cost FY17 USD'000	Total FY17 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	US Embassy, Bulgaria Grant for AUBG Musical performances	S-BU800-17-CR-005	720		720
	Total Expenditure of Federal Awards		<u>6</u>	<u>-</u>	<u>6</u>
			<u>726</u>	<u>-</u>	<u>726</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2017**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, 2017 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 18, 2017.

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.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност, регистрирано в Обединеното кралство („ДТТЛ“), както и към мрежата от дружества - членове и свързаните с тях дружества. ДТТЛ и всяко дружество - член са юридически самостоятелни и независими лица. ДТТЛ (наричано също "Делойт Глобал") не предоставя услуги на клиенти. Моля, посетете www.deloitte.com/bg/about, за да научите повече за нашата глобална мрежа от дружества-членове.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/bg/about to learn more about our global network of member firms.

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 18, 2017
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, 2017. 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 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.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност, регистрирано в Обединеното кралство („ДТТЛ“), както и към мрежата от дружества - членове и свързаните с тях дружества. ДТТЛ и всяко дружество - член са юридически самостоятелни и независими лица. ДТТЛ (наричано също „Делойт Глобъл“) не предоставя услуги на клиенти. Моля, посетете www.deloitte.com/bg/about, за да научите повече за нашата глобална мрежа от дружества-членове.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/bg/about to learn more about our global network of member firms.

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, 2017.

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 18, 2017
Sofia, Bulgaria

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements			
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
Federal Awards:			
Internal control over major federal programs:			
• Material weakness(es) identified ⁿ⁷	yes	X	no
• Significant deficiency(ies) identified ⁿ⁷	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
Identification of major programs:			
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