



AMERICAN UNIVERSITY IN BULGARIA

**CONSOLIDATED FINANCIAL STATEMENTS
as of and for the year ended June 30, 2018,
Supplemental Information for the year ended June 30, 2018,
Independent Auditors' Reports and
Schedule of Findings and Questioned Costs
for the year ended June 30, 2018**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the American University in Bulgaria

1. We have audited the accompanying consolidated financial statements of the American University in Bulgaria (the "University"), which comprise the consolidated statement of financial position as of June 30, 2018 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.

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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.
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, 2018, 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 October 19, 2018 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

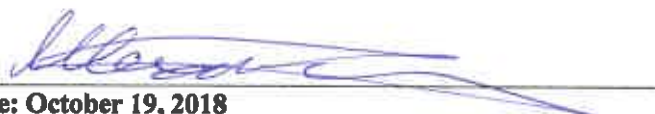
Deloitte Audit OOD

October 19, 2018
Sofia, Bulgaria

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

	<i>Note</i>	June 30, 2018	June 30, 2017
		USD'000	USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	3,969	8,918
Accounts receivable and prepayments	4	523	344
Contributions receivable	5	1,150	1,219
Inventories		219	218
Subtotal current assets		5,861	10,699
Long-term assets			
Long-term contributions receivable	5	1,996	1,448
Investments	6	25,850	24,393
Property, plant & equipment, and intangible assets	7	30,777	31,773
Other long-term assets	8	326	324
Subtotal long term assets		58,949	57,938
TOTAL ASSETS		64,810	68,637
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term borrowings and current portion of long-term debt	9	583	833
Accounts payable	10	257	286
Accrued liabilities and current portion of retirement benefits	11	643	388
Deferred revenue and other liabilities	12	841	842
Subtotal current liabilities		2,324	2,349
Long-term liabilities			
Long-term debt	13	2,138	5,796
Retirement benefit provision	14	182	197
Subtotal long-term liabilities		2,320	5,993
TOTAL LIABILITIES		4,644	8,342
Net assets			
Unrestricted	15	12,581	12,409
Temporarily restricted	16	40,699	41,069
Permanently restricted		6,886	6,817
TOTAL NET ASSETS		60,166	60,295
TOTAL LIABILITIES AND NET ASSETS		64,810	68,637

Signed on behalf of the American University in Bulgaria:



Date: October 19, 2018

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

Consolidated Statements of Activities for the years ended June 30, 2018 and 2017

	Year ended June 30, 2018			Year ended June 30, 2017		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
REVENUES						
UNDERGRADUATE PROGRAM						
Tuition	9,837	-	-	10,047	-	-
Institutionally-Funded Scholarships	(2,007)	-	-	(1,990)	-	-
Externally-Funded Scholarships	(2,240)	-	-	(2,511)	-	-
	5,590	-	-	5,546	-	-
Interest on Student Loans	5	-	-	25	-	25
Other Student Fees, net of 9/10 externally-funded scholarships	537	-	-	550	-	-
SUBTOTAL UNDERGRADUATE PROGRAM	6,132	-	-	6,121	-	6,121
CONTRIBUTIONS AND GRANTS						
Federal Grants	-	71	-	-	335	-
Private Gifts and Grants	101	1,336	69	161	2,423	59
Release from Restrictions, net	3,166	(3,166)	-	3,523	(3,523)	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	3,267	(1,759)	69	3,684	(765)	59
ENDOWMENT INCOME DISTRIBUTED	730	(730)	-	720	(720)	-
OUTREACH ACTIVITIES						
English Language Institute	341	(56)	-	259	-	-
Conferences and Institutes/ External Events	264	-	-	295	-	295
Elieff Center Services & Executive Education	98	-	-	81	-	81
Center for European Programs	8	(8)	-	6	(55)	(49)
External Projects	5	(5)	-	14	(14)	-
Graduate Programs	710	-	-	308	-	308
SUBTOTAL OUTREACH ACTIVITIES	1,426	(69)	-	963	(69)	894
AUXILIARY ACTIVITIES						
Bookstore, net of 2/2 externally-funded scholarships	87	-	-	86	-	86
Residence Life, net of 20/26 externally-funded scholarships	812	-	-	1,024	-	1,024
Dining Services, net of 10/8 externally-funded scholarships	554	-	-	424	-	424
SUBTOTAL AUXILIARY ACTIVITIES	1,453	-	-	1,534	-	1,534
OTHER REVENUES	99	-	-	163	-	163
TOTAL REVENUES	13,107	(2,558)	69	13,185	(1,554)	59
TOTAL REVENUES						11,690

Consolidated Statements of Activities for the years ended June 30, 2018 and 2017

	Year ended June 30, 2018				Year ended June 30, 2017			
	Unrestricted	Temp. Res.	Perm. Res.	Total	Unrestricted	Temp. Res.	Perm. Res.	Total
EXPENSES	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
EDUCATION AND GENERAL								
Instruction and Research	3,904	-	-	3,904	3,781	-	-	3,781
Academic Support	1,729	-	-	1,729	1,442	-	-	1,442
Student Services	952	-	-	952	874	-	-	874
SUBTOTAL EDUCATION AND GENERAL	6,585	-	-	6,585	6,097	-	-	6,097
DEVELOPMENT AND UNIVERSITY RELATIONS								
	501	-	-	501	448	-	-	448
INSTITUTIONAL SUPPORT								
Division of Finance	545	-	-	545	446	-	-	446
Physical Plant	415	-	-	415	43	-	-	43
Operations and Administration	1,662	-	-	1,662	2,316	-	-	2,316
SUBTOTAL INSTITUTIONAL SUPPORT	2,622	-	-	2,622	2,805	-	-	2,805
OUTREACH ACTIVITIES								
English Language Institute	358	-	-	358	304	-	-	304
Conferences and Institutes/ External Events	245	-	-	245	273	-	-	273
Elieff Center Services & Executive Education	265	-	-	265	219	-	-	219
Center for European Programs	14	-	-	14	33	-	-	33
External Projects	12	-	-	12	15	-	-	15
Graduate Programs	627	-	-	627	285	-	-	285
SUBTOTAL OUTREACH ACTIVITIES	1,521	-	-	1,521	1,129	-	-	1,129
AUXILIARY ACTIVITIES								
Bookstore	96	-	-	96	91	-	-	91
Residence Life	808	-	-	808	844	-	-	844
Dining Services	621	-	-	621	513	-	-	513
SUBTOTAL AUXILIARY ACTIVITIES	1,525	-	-	1,525	1,448	-	-	1,448
Scholarships for External Graduate Studies	115	-	-	115	94	-	-	94
Student Loans/ Fees Reversals	(24)	-	-	(24)	(36)	-	-	(36)
Other Expenses (incl. Interest expenses)	157	-	-	157	339	-	-	339
TOTAL EXPENSES	13,002	-	-	13,002	12,324	-	-	12,324
OPERATING SURPLUS (DEFICIT)	105	(2,558)	69	(2,484)	861	(1,554)	59	(634)
Endowment Drawdown	730	(730)	-	-	720	(720)	-	-
Endowment Income Distributed	(730)	730	-	-	(720)	720	-	-
Other Gains and (Losses)	38	2,217	-	2,255	(4)	3,208	-	3,204
CHANGE IN NET ASSETS before reclassifications	143	(341)	69	(129)	857	1,654	59	2,570

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

Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017

	FY18 USD'000	FY17 USD'000
Cash flows from operating activities		
Change in net assets	(129)	2,570
Adjustments to change in net assets:		
Revenue from fund-raising activities	(1,577)	(2,930)
(Increase) in accounts receivable, prepayments, and inventories	(180)	(25)
Increase in current liabilities and retirement benefits	210	97
(Increase) Decrease in student loans receivable, net	(7)	5
Decrease in cash deposits for student loans guarantees	6	2
Depreciation and amortization (Note 7)	1,493	1,712
In-kind donation of property, plant and equipment and investment property	(5)	(14)
Net cash (used in) provided by operating activities other than fund-raising	(189)	1,417
Revenue from fund-raising activities	1,577	2,930
(Increase) Decrease in contributions receivable	(479)	392
Net cash provided by fund-raising activities	1,098	3,322
Net cash provided by operating activities	909	4,739
Cash flows from investing activities		
Construction and purchase of property, plant and equipment (Note 7)	(493)	(508)
(Purchase) of investment securities	-	(4,404)
Sale of investment securities	806	5,747
(Gain) from investing activities	(2,263)	(3,263)
Cash flow used in investing activities	(1,950)	(2,428)
Cash flow from financing activities		
(Decrease) in long-term borrowing	(3,908)	(833)
Cash flow used in financing activities	(3,908)	(833)
(Decrease) Increase in cash and cash equivalents for the period	(4,949)	1,478
Cash and cash equivalents at the beginning of the period (Note 3)	8,918	7,440
Cash and cash equivalents at the end of the period (Note 3)	3,969	8,918
	FY18	FY17
Interest payments	206	339

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 2017-2018, the University enrolled 860 undergraduate students from more than 40 countries.

At the end of 2001, the American University Service Company (AUSC), a wholly-owned subsidiary headquartered in Sofia, Bulgaria, was established. The company’s activity is to organize and conduct educational courses.

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, retirement benefits, and litigation risk disclosure.

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.

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:

	Years
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 24 as of June 30, 2018) 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, 2018	June 30, 2017
Exchange rates	1.67767	1.71384

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. Litigation Risk

The University is a party to certain litigation cases – both as a plaintiff and as a defendant. In the instances where there are cases brought up against the University, AUBG management has considered all available evidence and obtained ample relevant legal advice. In our assessment the risks cannot be quantified at this point in time but Management believes that the probability of a negative outcome is low and that the pending litigations, based on today's assessment, will not materially affect the financial position or the results of the University's operations.

2.27. 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.

2.28. Income tax

The University has no uncertain tax positions taken or expected to be taken as of June 30, 2018. The University has recognized no interest or penalties related to uncertain tax positions. The University is subject to routine audits by tax authorities.

2.29. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Commonfund/ State Street Institutional US Gov't Money Market	1,943	2,139
Cash on hand/bank deposits	1,054	2,933
Deposits with restrictions	972	3,846
Total	3,969	8,918

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).

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Deferred expenses	301	256
Prepayments and advances	87	40
Tax receivables	58	2
Receivables from students, net of USD 20 / 21 thousand allowance	47	7
Accounts receivable	30	39
Total	523	344

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:

	June 30, 2018	June 30, 2017
	USD'000	USD'000
America for Bulgaria Foundation	991	500
Albanian-American Development Foundation	44	89
ASHA	16	300
OSI Scholarships	-	250
Other	99	80
Total	1,150	1,219

Long-term contributions receivable comprise of:

	June 30, 2018	June 30, 2017
	USD'000	USD'000
America for Bulgaria Foundation	1,992	1,390
Other	4	58
Total	1,996	1,448

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, 2018 Fair Value USD'000	June 30, 2017 Fair Value USD'000
USAID Quasi – Endowment Fund		
Multi-Strategy Equity Fund	9,667	8,779
SSgA MSCI EAFE Index	3,015	2,978
High Quality Bond Fund	2,449	2,445
SSgA MSCI Emerging Markets Fund	716	663
Equity Index Fund	653	572
Core Equity Fund	69	61
Subtotal USAID Quasi – Endowment Fund:	16,569	15,498
Pooled Endowment Fund		
Multi-Strategy Equity Fund	4,745	4,558
High Quality Bond Fund	1,418	1,416
Equity Index Fund	1,222	1,069
SSgA MSCI EAFE Index	1,015	1,042
SSgA MSCI Emerging Markets Fund	436	404
Core Equity Fund	60	53
Subtotal Pooled Endowment Fund:	8,896	8,542
Other Investments:	385	353
Total	25,850	24,393

Additionally, AUBG invested USD 1,943 thousand as of June 30, 2018 (June 30, 2017: 2,139 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENTS (CONTINUED)

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)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	June 30, 2018 USD'000	(Level 1) USD'000	(Level 2) USD'000	(Level 3) USD'000
Multi-Strategy Equity Fund	14,412	-	14,412	-
SSgA MSCI EAFE Index	4,030	-	4,030	-
High Quality Bond Fund	3,867	-	3,867	-
Equity Index Fund	1,875	-	1,875	-
SSgA MSCI Emerging Markets Fund	1,152	-	1,152	-
Core Equity Fund	129	-	129	-
Other Investments	385	385	-	-
Total:	25,850	385	25,465	-

	Fair Value Measurement at Reporting Date Using			
	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	June 30, 2017 USD'000	(Level 1) USD'000	(Level 2) USD'000	(Level 3) 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	-
Other Investments	353	353	-	-
Total:	24,393	353	24,040	-

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, 2018, approved by the Board of Trustees:

	Strategic Asset Allocation	USD	of which 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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	USD'000	USD'000
Land	3,022	3,022
Buildings	35,373	35,373
Less: accumulated depreciation	(8,630)	(7,731)
Buildings Net Book Value	26,743	27,642
Office machines and equipment	4,813	4,691
Less: accumulated depreciation	(4,439)	(4,395)
Office Machines and Equipment Net Book Value	374	296
Motor vehicles	90	90
Less: accumulated depreciation	(86)	(78)
Motor Vehicles Net Book Value	4	12
Furniture and fixtures	2,763	2,709
Less: accumulated depreciation	(2,428)	(2,265)
Furniture and Fixtures Net Book Value	335	444
Library books	903	870
Less: accumulated depreciation	(773)	(739)
Library Books Net Book Value	130	131
Other intangible assets	1,454	1,455
Less: accumulated amortization	(1,431)	(1,375)
Other Intangible Assets Net Book Value	23	80
Assets under construction	146	146
Total Book Value	48,564	48,356
Less: Depreciation and Amortization	(17,787)	(16,583)
Total Net Book Value	30,777	31,773
	<u>FY18</u>	<u>FY17</u>
	USD'000	USD'000
Depreciation expenses:		
Property, Plant and Equipment	1,436	1,621
Intangible Assets	57	91
Total	1,493	1,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. OTHER LONG-TERM ASSETS

Other long-term assets include:

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Long lived assets held, not used	295	295
Cash deposits for student loans guarantees, net	16	21
Student loans receivable, net	15	8
Total	326	324

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

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Current portion of long-term debt/ OPIC (note 13)	583	833
Total	583	833

10. ACCOUNTS PAYABLE

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Tax and social security payables	169	130
Payables to vendors and others	44	43
OPIC loan interest payable	33	91
Payables to undergraduate students	11	22
Total	257	286

11. ACCRUED LIABILITIES AND CURRENT PORTION OF RETIREMENT BENEFITS

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Accrued vacation	223	197
Current portion of retirement benefit provision (Note 14)	213	138
Accrued expenses	207	53
Total	643	388

12. DEFERRED REVENUE AND OTHER LIABILITIES

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Deferred revenue from undergraduate students	642	569
Advance payments for seminars	82	173
Advance ELI payments	62	66
Deferred revenue from graduate students	55	34
Total	841	842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Principal amount	2,750	6,667
Less unamortized cost	(29)	(38)
Less current portion (Note 9)	(583)	(833)
Long-term debt, net	2,138	5,796

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 10,348 thousand as of June 30, 2018. 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, 2018 is USD 148 thousand (year ended June 30, 2017: USD 329 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, 2019	583	100
June 30, 2020	583	76
June 30, 2021	317	57
June 30, 2022	317	45
June 30, 2023	317	32

14. RETIREMENT BENEFIT PROVISION

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

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Discount rate		
(Interest rate for 10-year Government Bonds, source: Bulgarian National Bank)	1.63%	1.78%
Turnover rate	10%	10%

The Retirement Benefits are expected to be paid:

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Current liability (within 1 year (Note 11))	213	138
Long-term liability:		
2 years	34	54
3 years	29	28
4 years	13	22
5 years	15	10
More than 5 years	91	83
Long-term liability	182	197
Total:	395	335

The expense for retirement benefits recognized in the consolidated statement of activities for FY18 is USD 60 thousand (FY17: negative USD 8 thousand).

15. UNRESTRICTED NET ASSETS

	June 30, 2018	June 30, 2017
	USD'000	USD'000
Unrestricted net assets as of the beginning of the year	12,409	11,483
Reclassifications and corrections	29	69
Change in unrestricted assets	143	857
Unrestricted net assets as of the end of the period	12,581	12,409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. TEMPORARILY RESTRICTED NET ASSETS

	June 30, 2017 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications/ Revaluation	June 30, 2018 Balance
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
USAID Quasi - Endowment Fund	17,191	-	-	(730)	-	1,422	-	17,883
America for Bulgaria Foundation	13,013	1,468	(1,736)	(200)	-	3	-	12,548
ASHA Grants	4,672	-	-	(203)	(261)	-	-	4,208
Athanas Zamphiroff	771	-	(8)	-	-	188	-	951
Board Designated Endowment	765	-	-	-	-	128	-	893
Balkanski Family	754	-	-	(25)	-	-	-	729
Anna Tchaprachikoff	719	(232)	-	(117)	-	353	-	723
OSI Scholarships	1,007	-	(296)	(1)	-	-	-	710
Stiftung Usine Foundation	300	-	-	-	-	-	-	300
Novartis/ Carl Djerassi naming gift	301	-	-	(8)	-	-	-	293
Philippe Bertherat	178	-	-	(5)	-	-	-	173
Dimi Panitza	117	-	-	(3)	-	-	-	114
Elvin Guri Scholarships	114	-	(23)	-	-	-	-	91
20th Anniversary Scholarship	71	-	-	-	-	-	-	71
Raiffeisenbank Scholarships	62	-	(5)	-	-	-	-	57
Other	1,034	165	(212)	(124)	(8)	129	(29)	955
Total	41,069	1,401	(2,280)	(1,416)	(269)	2,223	(29)	40,699

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 19, 2018, 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2018*

FDA Number	Grant or agency/ Program title	Grant number	Expenditure FY18 USD'000	Capitalized cost FY18 USD'000	Total FY18 USD'000
98. Unknown	US Agency for International Development (USAID) Endowment fund for achieving long-term financial sustainability	183-A-00-02-00102-00	730	-	730
98. Unknown	US Embassy, Bulgaria Grant for ELI - English for Journalists	S-BU800-17-CR-0052	47	1	48
98. Unknown	ASHA/ USAID Photo & video equipment for i-Hub	AID-ASHA-G-16-00006	32	261	293
98. Unknown	US Department of Education - US Federal Direct Loan Program	P268K188418	32	-	32
98. Unknown	US Department of Veteran Affairs - Education benefits	Post-9/11 GI Bill	32	-	32
Total Expenditure of Federal Awards			873	262	1,135

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2018**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, 2018 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 October 19, 2018.

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

October 19, 2018
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, 2018. 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.

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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, 2018.

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 the University'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

October 19, 2018
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