

AMERICAN UNIVERSITY IN BULGARIA
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and June 30, 2009

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the American University in Bulgaria

1. We have audited the accompanying consolidated statements of financial position of the American University in Bulgaria (the "University") as of June 30, 2010 and 2009 and the related consolidated statements of activities and of cash flows for the years then ended, prepared in accordance with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. Except as discussed in paragraph 3 below we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not have an external quality control review by an unaffiliated audit organization as required in Chapter 3, paragraph 3.33 of U.S. Government Auditing Standards since no such program is offered by professional organizations in the Republic of Bulgaria. We believe that the effect of this departure from U.S. Government Auditing Standards is not material because we participate in the Deloitte worldwide internal quality control review program which requires our office to be subject every three years to an extensive quality control review by partners and managers from other affiliate offices.
4. 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За детайлна информация относно правната структура на Делойт Туш Томацу Лимитид и дружествата - членове, моля посетете www.deloitte.com/bg/za_nas.

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

5. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of the University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic consolidated financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, has been stated fairly, in all material respects, in relation to the basic, consolidated financial statements taken as a whole.

6. In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2010 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 grants. These reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte Audit OOD

Deloitte Audit OOD

September 20, 2010
Sofia, Bulgaria

Consolidated Statement of Financial Position as of June 30, 2010 and June 30, 2009

	<i>Note</i>	June 30, 2010	June 30, 2009
		USD'000	USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	1,772	2,534
Temporarily restricted cash	4	-	332
Accounts receivable and prepayments	5	585	803
Contributions receivable	6	5,600	1,467
Inventories		274	235
Investment property	7	81	1,342
Subtotal current assets		8,312	6,713
Long-term assets			
Long-term contributions receivable	6	884	2,606
Cash deposits for student loans guarantees, net	8	55	34
Student loans receivable, net	9	193	226
Investments	10	12,689	12,150
Property, plant and equipment	11	24,878	19,300
Subtotal long term assets		38,699	34,316
TOTAL ASSETS		47,011	41,029
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	12	2,151	2,114
Accrued liabilities	13	290	349
Deferred revenue and other liabilities	14	517	521
Subtotal current liabilities		2,958	2,984
Fund balance			
Unrestricted	15	11,037	8,553
Temporarily restricted	16	27,083	24,425
Permanently restricted		5,933	5,067
Total fund balance		44,053	38,045
TOTAL LIABILITIES AND FUND BALANCE		47,011	41,029

Signed on behalf of the American University in Bulgaria:



Date: September 20, 2010

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

Consolidated Statement of Activities for the years ended June 30, 2010 and June 30, 2009

	Year ended June 30, 2010			Year ended June 30, 2009			
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.	Total
							USD'000
REVENUES							
UNDERGRADUATE PROGRAM							
Tuition	8,596	-	-	8,596	-	-	8,596
Institutionally-Funded Scholarships	(1,870)	-	-	(1,870)	-	-	(1,870)
Externally-Funded Scholarships	(1,692)	-	-	(1,692)	-	-	(1,692)
	5,034	-	-	5,034	-	-	5,034
Interest on Student Loans	49	-	-	49	-	-	49
Other Student Fees, net of 20/13 externally-funded scholarships	291	-	-	291	-	-	291
SUBTOTAL UNDERGRADUATE PROGRAM	5,374	-	-	5,374	-	-	5,374
CONTRIBUTIONS AND GRANTS							
Federal Grants	-	789	-	789	-	-	789
Private Gifts and Grants	182	7,101	35	7,318	-	-	7,318
Release from Restrictions	2,762	(2,762)	-	-	-	-	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	2,944	5,128	35	8,107	-	-	8,107
ENDOWMENT INCOME DISTRIBUTED	550	(550)	-	507	(507)	-	-
OUTREACH ACTIVITIES							
English Language Institute	343	(4)	-	339	-	-	311
Conferences and Institutes	71	-	-	71	(1)	-	77
Elieff Center Services	152	-	-	148	-	-	148
Center for European Programs	214	(126)	-	235	143	-	378
EMBA	386	-	-	354	-	-	354
SUBTOTAL OUTREACH ACTIVITIES	1,166	(130)	-	1,126	142	-	1,268
AUXILIARY ACTIVITIES							
Bookstore, net of 15/5 externally-funded scholarships	176	-	-	188	-	-	188
Residence Life, net of 95/56 externally-funded scholarships	848	-	-	766	-	-	766
Dining Services, net of 23/8 externally-funded scholarships	262	-	-	311	-	-	311
SUBTOTAL AUXILIARY ACTIVITIES	1,286	-	-	1,265	-	-	1,265
OTHER REVENUES	90	-	-	142	-	-	142
TOTAL REVENUES	11,410	4,448	35	10,864	771	146	11,781

Consolidated Statement of Activities for the years ended June 30, 2010 and June 30, 2009 (continued)

	Year ended June 30, 2010			Year ended June 30, 2009		
	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000
EXPENSES			Total USD'000			Total USD'000
EDUCATION AND GENERAL						
Instruction and Research	3,380	-	3,380	3,289	-	3,289
Academic Support	1,791	-	1,791	1,351	-	1,351
Student Services	508	-	508	464	-	464
SUBTOTAL EDUCATION AND GENERAL	5,679	-	5,679	5,104	-	5,104
DEVELOPMENT AND UNIVERSITY RELATIONS	452	-	452	379	-	379
INSTITUTIONAL SUPPORT						
Division of Finance	554	-	554	500	-	500
Physical Plant	339	-	339	108	-	108
Operations and Administration	1,498	-	1,498	1,433	-	1,433
SUBTOTAL INSTITUTIONAL SUPPORT	2,391	-	2,391	2,041	-	2,041
OUTREACH ACTIVITIES						
English Language Institute	284	-	284	213	-	213
Conferences and Institutes	77	-	77	73	-	73
Elieff Center Services	247	-	247	275	-	275
Center for European Programs	211	-	211	220	-	220
EMBA	302	-	302	326	-	326
SUBTOTAL OUTREACH ACTIVITIES	1,121	-	1,121	1,107	-	1,107
AUXILIARY ACTIVITIES						
Bookstore	164	-	164	205	-	205
Residence Life	959	-	959	888	-	888
Dining Services	351	-	351	371	-	371
SUBTOTAL AUXILIARY ACTIVITIES	1,474	-	1,474	1,464	-	1,464
Scholarships for External Graduate Studies	66	-	66	-	-	-
Student Loans/ Fees Reversals	(109)	-	(109)	(74)	-	(74)
TOTAL EXPENSES	11,074	-	11,074	10,021	-	10,021
OPERATING SURPLUS (DEFICIT)	336	4,448	35	843	771	146
Endowment Drawdown	2,150	(2,150)	-	507	(507)	-
Endowment Income Distributed	(550)	550	-	(507)	507	-
Other Gains and (Losses)	419	1,189	(419)	(402)	(2,463)	-
CHANGE IN NET ASSETS	2,355	4,037	(384)	441	(1,692)	146
			6,008			(1,105)

Consolidated Statement of Cash Flows for the years ended June 30, 2010 and June 30, 2009

	June 30, 2010	June 30, 2009
	USD'000	USD'000
Cash flows from operating activities		
Change in fund balance	6,008	(1,105)
Adjustments to change in fund balance:		
Revenue from fund-raising activities	(8,092)	(3,850)
Decrease (Increase) in accounts receivable, prepayments, and inventories	179	(238)
(Decrease) in current liabilities	(81)	(225)
Decrease in student loans receivable	33	100
(Increase) Decrease in cash deposits for student loans guarantees	(21)	222
Depreciation and amortization	1,259	1,079
In-kind donation of fixed assets	(10)	(2,460)
In-kind donation of investment securities	(5)	(2)
Net cash used in operating activities other than fund-raising	<u>(730)</u>	<u>(6,479)</u>
Revenue from fund-raising activities	8,092	3,850
(Increase) Decrease in contributions receivable	(2,411)	1,732
Net cash provided by fund-raising activities	<u>5,681</u>	<u>5,582</u>
Net cash provided by (used in) operating activities	4,951	(897)
Cash flows from investing activities		
Construction and purchase of equipment	(6,827)	(4,177)
(Purchase) of investment securities	(4,857)	(2,294)
Sale of investment securities	5,292	-
(Gain) Loss from investing activities	(970)	2,599
Proceeds from sale of fixed assets	1,262	-
Cash flow from investing activities	<u>(6,100)</u>	<u>(3,872)</u>
Cash flow from financing activities		
Short-term borrowings	55	2,050
Cash flow from financing activities	<u>55</u>	<u>2,050</u>
Decrease in cash for the period	(1,094)	(2,719)
Cash at the beginning of the period	<u>2,866</u>	<u>5,585</u>
Cash and cash equivalents	1,772	2,534
Temporarily restricted cash	-	332
Cash at the end of the period	<u>1,772</u>	<u>2,866</u>

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

The American University in Bulgaria (AUBG) 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. Because at the time of the establishment of the University the laws of Bulgaria did not provide for the establishment of private educational institutions, 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 American University in Bulgaria maintains a campus located in Blagoevgrad. At the end of 2001 the American University Service Company (AUSC), a fully 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 for the year ended June 30, 2010 are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States for non-profit organizations as well as applicable United States Government guidelines. The statement of activities presents the financial activities by type of net assets related to the reporting periods.

2.2. 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.

2.3. Cash and cash equivalents

Cash includes currency on hand and 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2.4. 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.

2.5. 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.

2.6. 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.

2.7. 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 guidelines contained in ASC #958-320 "Not-for-profit entities – Investments in Debt and Equity Securities" and ASC #820 "Fair Value Measurements", effective for financial statements issued for fiscal years beginning after November 15, 2007, have been followed. 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 10) 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.

2.8. Property, plant and equipment

Property, plant and equipment 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.

Since its incorporation, AUBG uses an administrative building located in Blagoevgrad, free of charge. The current contract has been extended on May 1, 2009 for four years ending July 16, 2013. Restricted revenue is recognized in the period when the unconditional contribution of the use of the long-lived asset is made. The release from restriction (revenue) is matched by amortization (expense) in each of the years of use.

NOTES TO THE FINANCIAL STATEMENTS (continued)**Investment property**

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

Valuation 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 recovered.

2.9. Gifts and grants

The University reports 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.

2.10. 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 monthly contribution for each full-time Bulgarian employee.

2.11. 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, 2010	June 30, 2009
Exchange rates	1.59386	1.38378

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.

2.12 Basis of consolidation

The consolidated financial statements incorporate the financial statements of AUBG and a 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

All significant inter-company transactions and balances between AUBG and the subsidiary are eliminated on consolidation.

2.13. Return of taxes/charges recorded as expenses in the previous accounting periods

The return of taxes/charges, recorded as expenses in the previous year financials is presented as *Other Revenue* in the current period financial statements.

2.14. 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.

2.15. Concentration of credit risk

The University occasionally maintains deposits in excess of the insured limits. 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.

2.16. 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.

2.17. 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 with Raiffeisen Bank Bulgaria.

2.18. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. CASH AND CASH EQUIVALENTS

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
Cash on hand/bank deposits for operating needs	1,723	2,284
Deposits with donor-imposed restrictions	46	210
Deposits with the Community Foundation	3	40
Total	<u>1,772</u>	<u>2,534</u>

Deposits with the Community Foundation include amounts, provided by donors in the Community Foundation in favor of AUBG. The Management of the University believes that these amounts are highly liquid and are readily convertible to known amounts of cash, and are subject to an insignificant risk of change in value.

4. TEMPORARILY RESTRICTED CASH

As of June 30, 2010, all funds are available for immediate withdrawal.

5. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
Accounts receivable	311	37
Deferred expenses	146	170
Prepayments and advances	71	543
Tax receivables	34	33
Receivables from students, net of USD 4 / 9 thousand allowance	23	20
Total	<u>585</u>	<u>803</u>

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

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable falling due within one year are comprised of:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
America for Bulgaria Foundation	4,000	-
OSI Scholarships	1,000	749
ASHA	230	-
Nando Peretti Foundation	83	-
EU Administrative capacity program	59	79
Elvin Guri	50	50
OSI Turkmen Students Scholarships	40	40
Raiffeisen Bank	16	31
Salgo Scholarships	11	-
Athanas Zamphiroff	-	450
Other	111	68
Total	<u>5,600</u>	<u>1,467</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

Long-term contributions receivable are comprised of:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
OSI Scholarships	724	2,360
Elvin Guri	121	168
OSI Turkmen Students Scholarships	39	78
Total	<u>884</u>	<u>2,606</u>

7. INVESTMENT PROPERTY

Investment property in the amount of USD 81 thousand as of June 30, 2010 represents land in Bankia bequeathed by Anna Tchaprachikoff.

8. CASH DEPOSITS FOR STUDENT LOANS GUARANTEES

	<u>Loan Balance</u>	<u>Guarantee Fund</u>	<u>Loan Balance</u>	<u>Guarantee Fund</u>
	<u>June 30, 2010</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2009</u>
BG students/ principal EUR'000	595	-	541	-
International students/ principal EUR'000	227	45	238	48
Total Principal and Guarantee Fund				
EUR'000	<u>822</u>	<u>45</u>	<u>779</u>	<u>48</u>
<i>Total Guarantee Fund/ USD'000</i>		<i>56</i>		<i>67</i>
<i>Less allowance for bad debts/ USD'000</i>		<i>(1)</i>		<i>(33)</i>
<i>Net Guarantee Fund/ USD'000</i>		<u><i>55</i></u>		<u><i>34</i></u>

Since the fall semester 2002, AUBG has implemented an agreement with UniCredit Bulbank (formerly Hebros Bank) to offer loans through that bank to full-time, degree-seeking AUBG students over the age of 18, both international and Bulgarian. The full principal amount of the loan plus interest must be fully repaid within fifteen years after AUBG graduation beginning within no more than five years of the students' first AUBG enrollment. Since the fall semester 2008, AUBG has also implemented an agreement with MKB Union bank to offer loans through that bank of up to EUR 10,000 to AUBG students over the age of 18, both international and Bulgarian. The full principal amount of the loan plus interest must be fully repaid within twelve years after AUBG graduation.

Agreements with UniCredit Bulbank and MKB Union bank require that AUBG maintain guarantee funds at both banks in the amount of 20% of the principal for loans of international undergraduate students. The balance of the guarantee funds at UniCredit Bulbank and MKB Union bank as of June 30, 2010 is USD 43 thousand and USD 13 thousand, respectively, pledged in favor of the Banks.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. STUDENT LOANS RECEIVABLE

	July 1, 2009 - June 30, 2010	July 1, 2008 - June 30, 2009
	USD'000	USD'000
Principal value of student loans at the beginning of the reporting period	2,222	2,391
Add new loans issued	78	45
Deduct student loan repayments made during the period - direct cash	(208)	(274)
Add student loan interest payments	49	69
Deduct loan principal write offs (contractual forgiveness)	(12)	(9)
Principal value of student loans at the end of the reporting period	2,129	2,222
Less provision for uncollectible loans	(1,936)	(1,996)
Student loans receivable	193	226

The provisions for uncollectible loans as of June 30, 2010 and June 30, 2009 have been calculated as follows:

Loan status	Count	Loan Balance	% Allowance	Provision	Total Amount
June 30, 2010		USD'000		Amount	Receivable
		USD'000		USD'000	USD'000
Fully repaid	982	-	-	-	-
Not due	19	67	50%	33	34
Repayment - not past due	133	275	50%	137	138
Past due 1 - 90 days	35	76	80%	61	15
Past due 91 - 119 days	4	16	90%	14	2
Past due 120 days - 1 year	36	86	95%	82	4
Past due 1 year - 3 years	72	179	100%	179	-
Past due 3 years or more	336	1,430	100%	1,430	-
	1,617	2,129		1,936	193

Loan status	Count	Loan Balance	% Allowance	Provision	Total Amount
June 30, 2009		USD'000		Amount	Receivable
		USD'000		USD'000	USD'000
Fully repaid	928	-	-	-	-
Not due	28	92	50%	46	46
Repayment - not past due	137	309	50%	154	155
Past due 1 - 90 days	30	86	80%	69	17
Past due 91 - 119 days	8	24	90%	22	2
Past due 120 days - 1 year	45	112	95%	106	6
Past due 1 year - 3 years	92	270	100%	270	-
Past due 3 years or more	301	1,329	100%	1,329	-
	1,569	2,222		1,996	226

Between 1994 and 2001, the University was providing loans to students for tuition and other fees, related to the cost of education in the University. Repayment of principal and interest on these loans generally begins six months after the date the student finishes education or military service.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENTS

	June 30, 2010 Fair Value USD'000	June 30, 2009 Fair Value USD'000
USAID Quasi – Endowment Fund		
International Equity Fund	3,773	3,881
Core Equity Fund	2,579	2,718
High Quality Bond Fund	1,782	1,553
Global Bond Fund	1,630	1,517
Equity Index Fund	1,220	1,259
Government Securities Fund	-	613
Real Estate Securities Fund	28	18
Subtotal USAID Quasi – Endowment Fund:	11,012	11,559
Pooled Endowment Fund		
International Equity Fund	634	181
Core Equity Fund	334	99
Equity Index Fund	322	89
High Quality Bond Fund	188	75
Global Bond Fund	181	74
Government Securities Fund	-	32
Real Estate Securities Fund	18	12
Subtotal Pooled Endowment Fund:	1,677	562
Other Investments	-	29
Total	12,689	12,150

The University has invested USD 14,498 thousand in the USAID Quasi-Endowment Fund and USD 1,862 thousand in the Pooled Endowment Fund, allocated in six Commonfund's funds. The management intends to hold the investments for a period longer than one year.

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 June 30, 2010 USD'000	Significant Other Observable Inputs (Level 1) USD'000	Significant Other Observable Inputs (Level 2) USD'000	Significant Unobservable Inputs (Level 3) USD'000
International Equity Fund	4,407	-	4,407	-
Core Equity Fund	2,913	-	2,913	-
High Quality Bond Fund	1,970	-	1,970	-
Global Bond Fund	1,811	-	1,811	-
Equity Index Fund	1,542	-	1,542	-
Real Estate Securities Fund	46	-	46	-
Total:	12,689	-	12,689	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Fair Value Measurement at Reporting Date Using			
	Quoted prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
June 30, 2009	(Level 1)	(Level 2)	(Level 3)	
USD'000	USD'000	USD'000	USD'000	USD'000
International Equity Fund	4,062	-	4,062	-
Core Equity Fund	2,817	-	2,817	-
High Quality Bond Fund	1,628	-	1,628	-
Global Bond Fund	1,591	-	1,591	-
Equity Index Fund	1,348	-	1,348	-
Government Securities Fund	645	-	645	-
Real Estate Securities Fund	30	-	30	-
Other Investments	29	29	-	-
Total:	12,150	29	12,121	-

ENDOWMENT AND QUASI-ENDOWMENT FUNDS

Investment Fund USD'000	July 1, 2009 Market Value	Net Transactions*	Participant Fees Withdrawn	Unrealized Appreciation **	June 30, 2010 Market Value
ENDOWMENT FUND					
International Equity Fund	4,062	196	(17)	166	4,407
Core Equity Fund	2,817	(299)	(12)	407	2,913
Equity Index Fund	1,348	34	(1)	161	1,542
Real Estate Securities Fund	30	1	-	15	46
Total Equity	8,257	(68)	(30)	749	8,908
High Quality Bond Fund	1,628	193	(5)	154	1,970
Global Bond Fund	1,591	187	(5)	38	1,811
Government Securities Fund	645	(645)	-	-	-
STF Tranche 2	332	(355)	-	23	-
Total Fixed Income	4,196	(620)	(10)	215	3,781
TOTAL ENDOWMENT FUND	12,453	(688)	(40)	964	12,689

* Net Transactions includes all contributions, withdrawals, reinvestments, and reclassifications.

** Unrealized Appreciation does not include income distributed.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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), approved by the Board of Trustees in October 2009:

	Strategic Asset Allocation	of which	
		USD	Int'l
Cash & Money Market	30%	10%	20%
Fixed Income	20%	10%	10%
Equities	50%	25%	25%
		45%	55%

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.

11. PROPERTY, PLANT & EQUIPMENT

	June 30, 2010 USD'000	June 30, 2009 USD'000
Land	2,706	132
Buildings	22,162	16,208
Less: accumulated depreciation	(2,508)	(2,050)
Buildings Net Book Value	19,654	14,158
Main building use allowance *	2,189	2,189
Less: accumulated amortization	(1,384)	(1,116)
Main Building Use Allowance Net Book Value	805	1,073
Office machines and equipment	2,313	2,045
Less: accumulated depreciation	(1,881)	(1,739)
Office Machines and Equipment Net Book Value	432	306
Motor vehicles	87	134
Less: accumulated depreciation	(47)	(104)
Motor Vehicles Net Book Value	40	30
Furniture and fixtures	1,860	1,724
Less: accumulated depreciation	(1,282)	(1,126)
Furniture and Fixtures Net Book Value	578	598
Library books	638	612
Less: accumulated depreciation	(488)	(443)
Library Books Net Book Value	150	169
Other intangible assets	656	261
Less: accumulated amortization	(251)	(211)
Other Intangible Assets Net Book Value	405	50
Assets under construction	108	2,784
Total Book Value	32,719	26,089
Less: Amortization and Depreciation	(7,841)	(6,789)
Total Net Book Value	24,878	19,300

* Main Building Use Allowance is recognized as temporarily restricted revenue and corresponding asset. The release from restriction (revenue) is matched by amortization (expense) in each of the fiscal years. In FY09, Use Allowance is extended in the amount of USD 1,073 thousand with release of USD 268.2 thousand in each of fiscal years FY10 through FY13.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ACCOUNTS PAYABLE

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
Overdraft *	2,105	2,050
Payables to vendors and others	40	28
Payables to undergraduate students	5	11
Tax liabilities	1	25
Total	<u>2,151</u>	<u>2,114</u>

* Overdraft with Raiffeisen Bank Bulgaria at the maximum amount of USD 2.2 million.

13. ACCRUED LIABILITIES

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
Accrued vacation	176	201
Accrued expenses	114	148
Total	<u>290</u>	<u>349</u>

14. DEFERRED REVENUE AND OTHER LIABILITIES

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	USD'000	USD'000
Deferred revenue from undergraduate students	333	361
Advance ELI payments	93	66
Advance payments for seminars	62	57
Deferred revenue from graduate students	29	37
Total	<u>517</u>	<u>521</u>

15. UNRESTRICTED NET ASSETS

	<u>USD'000</u>
Unrestricted net assets as of June 30, 2009	8,553
Reclassifications	129
Change in unrestricted assets	2,355
Unrestricted net assets as of June 30, 2010	<u>11,037</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. TEMPORARILY RESTRICTED NET ASSETS USD'000

	June 30, 2009 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Additional Endowment Funds Distributed	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications/ Revaluation	June 30, 2010 Balance
USAID Endowment Fund	11,877	-	-	(550)	(1,600)	-	1,338	-	11,065
ASHA Grants	5,747	455	-	(188)	-	(204)	-	-	5,810
America for Bulgaria Foundation	-	5,000	-	-	-	-	59	-	5,059
OSI Scholarships	2,655	315	(1,216)	(100)	-	-	-	-	1,654
Balkanski Family	-	1,000	-	(25)	-	-	-	(46)	929
Main Building Use Allowance	1,073	-	-	(268)	-	-	-	-	805
Elvin Guri Scholarships	439	(1)	(67)	-	-	-	-	-	371
Anna Tchaprachikoff Scholarships	1,552	198	(44)	(67)	-	-	-	(1,424)	259
OSI New Opportunity Scholarships	276	-	-	-	-	-	-	-	232
Phillippe Bertherat - Student Center gift	-	200	-	-	-	-	-	-	200
Nando Peretti Foundation Scholarships	22	116	-	-	-	-	-	(4)	134
Dimi Panitza Library Fund	102	-	-	(3)	-	-	-	-	99
OSI Turkmen Students Scholarships	135	3	(47)	-	-	-	-	-	91
Raiffeisen Bank Scholarships	53	-	(10)	-	-	-	-	-	43
Marianne Keler Scholarships	48	-	(3)	-	-	-	-	(3)	42
Gates Helms Hawn Scholarships	28	-	-	(1)	-	-	-	-	27
Socrates Erasmus Program	6	100	(71)	(6)	-	-	-	(3)	26
Jan Protogerov Scholarships	21	21	(15)	-	-	-	-	(2)	25
EU Administrative Capacity Program	60	-	-	(25)	-	-	-	(11)	24
USAID / InvestNet.bg	90	-	-	(77)	-	-	-	-	13
Other	241	391	(376)	(54)	-	(14)	-	(13)	175
Total	24,425	7,798	(1,849)	(1,364)	(1,600)	(218)	1,397	(1,506)	27,083

NOTES TO THE FINANCIAL STATEMENTS (continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010 and 2009

Grant or agency/Program title	Grant number	Expenditure		Capitalized cost		Total	
		FY10 USD'000	FY09 USD'000	FY10 USD'000	FY09 USD'000	FY10 USD'000	FY09 USD'000
<i>U.S. Agency for International Development</i>							
Endowment fund for achieving long-term financial sustainability	183-A-00-02-00102-00	2,150	507	-	-	2,150	507
Furnishing block A of Skaptopara III Residence Hall	HSH-G-00-07-000005-00 No. 16 (Aug 11, 2008); No. 24 (Sept 16, 2008)	-	-	220	-	220	-
Transfer of Property		-	-	-	9	-	9
The Balkan Trust for Democracy	101720	77	1	-	-	77	1
Turkmen Assistance Scholarship Program	-	211	-	-	-	211	-
Total Expenditure of Federal Awards		2,438	508	220	9	2,658	517

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010 and 2009

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.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING, 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

We have audited the financial statements of the American University in Bulgaria (the University) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated September 20, 2010. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits, contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statements' amounts. For the purposes of this report, we have categorized the provisions of laws, regulations, contracts and grants we tested as part of obtaining such reasonable assurance into the following categories:

Budget preparation and execution;
Investment restrictions;
Taxation;
Procurement policies and procedures;
Grant contract terms and conditions.

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 non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control function over financial reporting and its operation that we consider to be a material weakness.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING, BASED ON AN AUDIT OF FINANCIAL STATEMENTS, PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

This report is intended solely for the information and use of the audit committee, management, and the awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte Audit OOD
Deloitte Audit OOD

September 20, 2010
Sofia, Bulgaria

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Trustees of the American University in Bulgaria

Compliance

We have audited the compliance of the American University in Bulgaria (the University) with the types of compliance requirements, described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2009. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs, is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 non-compliance 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 the University's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2009.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants, applicable to federal programs. In planning and performing our audit, we considered University's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното Кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За детайлна информация относно правната структура на Делойт Туш Томацу Лимитид и дружествата - членове, моля посетете www.deloitte.com/bg/za_nas.

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition, in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, and the awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte Audit OOD

Deloitte Audit OOD

September 20, 2010

Sofia, Bulgaria

SCHEDULE OF FINDINGS AND QUESTIONED COSTS**SUMMARY OF AUDITOR'S RESULTS****Auditor's report**

We have issued an unqualified auditor's report on the consolidated financial statements of the American University in Bulgaria for the years ended June 30, 2010 and 2009.

Compliance

The audit disclosed no instances of non-compliance, which are material to the University's financial statements for the years ended June 30, 2010 and 2009.

Reportable conditions in internal control over major programs

No reportable conditions in internal control over major programs were disclosed by the audit.

Report on compliance with major programs

We issued an unqualified opinion under Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.

Audit findings

Our audit disclosed no audit findings for 2010 and 2009 reportable under OMB A-133, 510 (a).

Major programs

The following programs were identified as major as of and for the years ended June 30, 2010 and 2009:

	Grant number
U.S. Agency for International Development	183-A-00-02-00102-00
ASHA Grant	HSH-G-00-06-00013-00/1422-964

Dollar threshold to distinguish between Type A and Type B programs

The amount of USD 300,000 has been used as a threshold to distinguish between Type A and Type B programs as prescribed by OMB A-133, 520 (b).

Low-risk auditee

The University did not qualify as a low-risk auditee under OMB A-133, 530.