

AMERICAN UNIVERSITY IN BULGARIA

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and June 30, 2006

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, 2007 and 2006 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, 2007 and 2006, 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.

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 report dated September 21, 2007 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. That report is 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.

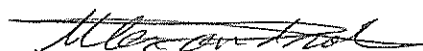
Deloitte Audit
Deloitte Audit OOD

September 21, 2007
Sofia, Bulgaria

Consolidated Statement of Financial Position as of June 30, 2007 and June 30, 2006

	<i>Note</i>	June 30, 2007 USD'000	June 30, 2006 USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	2,232	4,271
Accounts receivable and prepayments	4	401	278
Contributions receivable	5	2,350	9,284
Inventories		145	189
Subtotal current assets		5,128	14,022
Long-term assets			
Long-term contributions receivable	5	3,407	250
Cash deposits for student loans guarantees, net	6	241	231
Student loans receivable	7	380	462
Investments	8	15,370	6,984
Property, plant and equipment	9	12,457	9,311
Subtotal long term assets		31,855	17,238
TOTAL ASSETS		36,983	31,260
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	10	71	164
Accrued liabilities	11	314	312
Deferred revenue and other liabilities	12	432	298
Subtotal current liabilities		817	774
Fund balance			
Unrestricted	13	7,138	5,875
Temporarily restricted	14	28,838	24,540
Permanently restricted		190	71
Total fund balance		36,166	30,486
TOTAL LIABILITIES AND FUND BALANCE		36,983	31,260

Signed on behalf of the American University in Bulgaria:



Date: September 21, 2007

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

Consolidated Statement of Activities for the years ended June 30, 2007 and June 30, 2006

	Year ended June 30, 2007			Year ended June 30, 2006				
	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000	Total USD'000	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000	Total USD'000
REVENUES								
UNDERGRADUATE PROGRAM								
Tuition	6,934	-	-	6,934	6,153	-	-	6,153
AUBG-Funded Scholarships	(1,685)	-	-	(1,685)	(1,609)	-	-	(1,609)
	5,249	-	-	5,249	4,544	-	-	4,544
Interest on Student Loans	84	-	-	84	94	-	-	94
Other Student Fees	274	-	-	274	255	-	-	255
SUBTOTAL UNDERGRADUATE PROGRAM	5,607	-	-	5,607	4,893	-	-	4,893
EMBA	231	-	-	231	296	-	-	296
CONTRIBUTIONS AND GRANTS								
Federal Grants (Note 15)	-	1,659	-	1,659	-	7,353	-	7,353
Private Gifts and Grants	438	5,669	119	6,226	535	1,949	-	2,484
External Scholarships	-	(1,227)	-	(1,227)	-	(1,186)	-	(1,186)
Release from Restrictions	524	(524)	-	-	593	(593)	-	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	962	5,577	119	6,658	1,128	7,523	-	8,651
ENDOWMENT INCOME DISTRIBUTED	348	(348)	-	-	303	(303)	-	-
OUTREACH ACTIVITIES								
English Language Institute	155	-	-	155	163	-	-	163
Conferences and Institutes	53	-	-	53	116	-	-	116
Elieff Center Services	212	-	-	212	44	-	-	44
Center for European Programs	470	(88)	-	382	297	68	-	365
SUBTOTAL OUTREACH ACTIVITIES	890	(88)	-	802	620	68	-	688
AUXILIARY ACTIVITIES								
Bookstore	114	-	-	114	89	-	-	89
Residence Life	721	-	-	721	621	-	-	621
Dining Services	319	-	-	319	266	-	-	266
SUBTOTAL AUXILIARY ACTIVITIES	1,154	-	-	1,154	976	-	-	976
OTHER REVENUES	116	-	-	116	119	-	-	119
TOTAL REVENUES	9,308	5,141	119	14,568	8,335	7,288	-	15,623

Consolidated Statement of Activities for the years ended June 30, 2007 and June 30, 2006 (continued)

	Year ended June 30, 2007			Year ended June 30, 2006			
	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000	Unrestricted USD'000	Temp. Res. USD'000	Perm. Res. USD'000	Total USD'000
EXPENSES							
EDUCATION AND GENERAL							
Instruction	2,702	-	-	2,524	-	-	2,524
Academic Support	1,118	-	-	1,017	-	-	1,017
Student Services	400	-	-	347	-	-	347
SUBTOTAL EDUCATION AND GENERAL	4,220	-	-	3,888	-	-	3,888
EMBA	315	-	-	348	-	-	348
DEVELOPMENT AND UNIVERSITY RELATIONS	203	-	-	186	-	-	186
INSTITUTIONAL SUPPORT	436	-	-	444	-	-	444
Division of Finance	202	-	-	195	-	-	195
Physical Plant	1,581	-	-	1,234	-	-	1,234
Operations and Administration	2,219	-	-	1,873	-	-	1,873
SUBTOTAL INSTITUTIONAL SUPPORT	2,219	-	-	1,873	-	-	1,873
OUTREACH ACTIVITIES	158	-	-	154	-	-	154
English Language Institute	56	-	-	103	-	-	103
Conferences and Institutes	254	-	-	157	-	-	157
Eieiff Center Services	354	-	-	275	-	-	275
Center for European Programs	822	-	-	689	-	-	689
SUBTOTAL OUTREACH ACTIVITIES	822	-	-	689	-	-	689
AUXILIARY ACTIVITIES	127	-	-	86	-	-	86
Bookstore	764	-	-	705	-	-	705
Residence Life	376	-	-	306	-	-	306
Dining Services	1,267	-	-	1,097	-	-	1,097
SUBTOTAL AUXILIARY ACTIVITIES	(102)	-	-	(87)	-	-	(87)
Student Loans/ Fees Reversals	8,944	-	-	7,994	-	-	7,994
TOTAL EXPENSES	364	5,141	119	341	7,288	-	7,629
OPERATING SURPLUS (DEFICIT)	1,250	(1,250)	-	1,490	(1,490)	-	-
Endowment Drawdown	(348)	348	-	(303)	303	-	-
Endowment Income Distributed	56	-	-	37	-	-	37
Other Gains and (Losses)	1,322	4,239	119	1,565	6,101	-	7,666
CHANGE IN NET ASSETS	1,322	4,239	119	1,565	6,101	-	7,666

Consolidated Statement of Cash Flows for the years ended June 30, 2007 and June 30, 2006

	June 30, 2007 USD'000	June 30, 2006 USD'000
Cash flows from operating activities		
Change in fund balance	5,680	7,666
Adjustments to change in fund balance:		
Revenue from fund-raising activities	(7,875)	(10,000)
(Increase) Decrease in accounts receivable, prepayments, and inventories	(79)	26
Increase (Decrease) in current liabilities	43	(35)
Decrease in student loans receivable	82	104
(Increase) Decrease in cash deposits for student loans guarantees	(10)	27
Depreciation and amortization	812	897
Net book value of disposed fixed assets	5	3
In-kind donation of fixed assets	(13)	(493)
In-kind donation of investment securities	(265)	(66)
Net cash provided by operating activities other than fund-raising	(1,620)	(1,871)
Revenue from fund-raising activities	7,875	10,000
Decrease (Increase) in contributions receivable	3,777	(7,140)
Net cash provided by fund-raising activities	11,652	2,860
Net cash provided by operating activities	10,032	989
Cash flows from investing activities		
Construction and purchase of equipment	(3,945)	(770)
(Purchase) of investment securities	(7,977)	-
Sale of investment securities	1,154	28
(Gain) from investing activities	(1,298)	(585)
Proceeds from sale of fixed assets	(5)	(3)
Cash flow from investing activities	(12,071)	(1,330)
(Decrease) in cash for the period	(2,039)	(341)
Cash at the beginning of the period	4,271	4,612
Cash at the end of the period	2,232	4,271

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, 2007 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 FAS 124 "Accounting for Certain Investments Held by Not-for-profit Organizations" 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 in the statement of financial position. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by 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, 2006 for three years ending July 31, 2009. 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)**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 40 BGN 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. As a result, the functional currency is considered to be the United States Dollar. 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:

	<u>BGN to one USD</u>	
	June 30, 2007	June 30, 2006
Exchange rates	1.44823	1.53845

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. CASH AND CASH EQUIVALENTS

	June 30, 2007 USD'000	June 30, 2006 USD'000
USAID Quasi-Endowment (Commonfund)	896	1,982
Cash on hand/bank deposits for operating needs	1,020	2,028
Deposits with the Community Foundation	239	172
Deposits with donor-imposed restrictions	77	89
Total	2,232	4,271

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. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	June 30, 2007 USD'000	June 30, 2006 USD'000
Tax receivables	193	28
Deferred expenses	103	74
Accounts receivable	41	84
Prepayments and advances	6	28
Receivables from graduate students	4	4
Receivables from undergraduate students	110	79
Less allowance for uncollectible student fees	(56)	(19)
Total	401	278

Allowances for uncollectible student fees as of June 30, 2007 have been calculated as follows:

	Gross fee	Allowance %	Allowance amount
Past due less than one year	54	-	-
Past due over one year	56	100%	56
Total	110		56

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable falling due within one year are comprised of:

	June 30, 2007 USD'000	June 30, 2006 USD'000
USAID	-	6,962
Soros Scholarships	1,000	1,000
ASHA	770	770
OSI New Opportunity/Minority	125	125
Anna Chprashikova	77	-
Blagoevgrad BT Scholarship	-	54
Nando Peretti Foundation	49	50
Salgo	36	91
Other	293	232
Total	2,350	9,284

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. CONTRIBUTIONS RECEIVABLE (continued)

Long-term contributions receivable are comprised of:

	June 30, 2007 USD'000	June 30, 2006 USD'000
Soros Scholarships	3,282	-
OSI New Opportunity/Minority	125	250
Total	3,407	250

The Soros Scholarships grant is to provide scholarships to international students. USD 1 million for the 2007/2008 academic year was recognized as income and contribution receivable. The remaining USD 3,282 thousand are recognized as long-term contribution receivable.

6. CASH DEPOSITS FOR STUDENT LOANS GUARANTEES

	Loan Balance June 30, 2007	Guarantee Fund June 30, 2007	Loan Balance June 30, 2006	Guarantee Fund June 30, 2006
BG students/ principal EUR'000	646	107	649	98
International students/ principal EUR'000	276	91	307	92
Subtotal principal EUR'000	922	198	956	190
Interest EUR'000		-		17
Total Guarantee Fund/ EUR'000		198		207
<i>Total Guarantee Fund/ USD'000</i>		<i>268</i>		<i>262</i>
<i>Less allowance for bad debts/ USD'000</i>		<i>(27)</i>		<i>(31)</i>
Net Guarantee Fund/ USD'000		241		231

Since the fall semester 2002, AUBG has implemented an agreement with UniCredit Bulbank (formerly Hebrus 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.

The agreement with UniCredit Bulbank requires that AUBG guarantee a portion of the loan balances and maintain a guarantee fund at the Bank in the following amounts: 16.5% of the principal for loans of Bulgarian undergraduate students, 33% of the principal for loans of international undergraduate students, 28% of the principal for loans of Bulgarian graduate students, and 55% of the principal for loans of international graduate students. The guarantee fund as of the end of June 2007 is USD 268 thousand and is pledged in favor of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. STUDENT LOANS RECEIVABLE

	July 1, 2006 - June 30, 2007	July 1, 2005 - June 30, 2006
	USD'000	USD'000
Principal value of student loans at the beginning of the reporting period	2,743	2,966
Add new loans issued	6	20
Deduct student loan repayments made during the period - direct cash	(266)	(300)
Add student loan interest payments	84	94
Deduct loan principal write offs (contractual forgiveness)	(16)	(37)
Principal value of student loans at the end of the reporting period	2,551	2,743
Less provision for uncollectible loans	(2,171)	(2,281)
Student loans receivable	380	462

The provision for uncollectible loans as of June 30, 2007 has been calculated as follows:

Loan status	Count	Loan Balance	% Allowance	Provision	Total Amount
		USD'000		Amount	Receivable
		USD'000		USD'000	USD'000
Fully repaid	785	-	-	-	-
Not due	80	243	50%	122	121
Repayment - not past due	170	442	50%	221	221
Past due 1 - 90 days	47	139	80%	111	28
Past due 91 - 119 days	6	19	90%	17	2
Past due 120 days - 1 year	59	163	95%	155	8
Past due 1 year - 3 years	97	309	100%	309	-
Past due 3 years or more	258	1,236	100%	1,236	-
	1502	2,551		2,171	380

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.

8. INVESTMENTS

	June 30, 2007	June 30, 2006
	Fair Value	Fair Value
	USD'000	USD'000
International Equity Fund	4,934	1,731
Core Equity Fund	3,326	1,502
High Quality Bond Fund	2,442	1,418
Global Bond Fund	2,284	971
Equity Index Fund	1,662	773
Real Estate Securities Fund	718	455
Other Investments	4	134
Total	15,370	6,984

The University has invested USD 6,250 thousand in six Commonfund's funds. In January 2007, additional USD 6,477 thousand were invested in the same funds. In May 2007, the Board of Trustees approved a Revised Strategic Asset Allocation. As a result of this decision, the holdings in the International Equity Fund were increased by USD 1,500 thousand, and the holdings in the High Quality Bond Fund were decreased by USD 750 thousand. The management intends to hold the investments for a period longer than one year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT, AND EQUIPMENT

	June 30, 2007 USD'000	June 30, 2006 USD'000
Land	132	132
Buildings	8,801	8,749
Less: accumulated depreciation	(1,385)	(1,319)
Buildings Net Book Value	7,416	7,430
Main building use allowance *	1,116	1,116
Less: accumulated amortization	(832)	(690)
Main Building Use Allowance Net Book Value	284	426
Office machines and equipment	1,743	2,090
Less: accumulated depreciation	(1,407)	(1,846)
Office Machines and Equipment Net Book Value	336	244
Motor vehicles	135	138
Less: accumulated depreciation	(112)	(109)
Motor Vehicles Net Book Value	23	29
Furniture and fixtures	1,415	1,117
Less: accumulated depreciation	(785)	(666)
Furniture and Fixtures Net Book Value	630	451
Library books	524	479
Less: accumulated depreciation	(357)	(310)
Library Books Net Book Value	167	169
Other intangible assets	214	354
Less: accumulated amortization	(187)	(299)
Other Intangible Assets Net Book Value	27	55
Assets under construction**	3,442	375
Total Book Value	17,522	14,550
Less: Amortization and Depreciation	(5,065)	(5,239)
Total Net Book Value	12,457	9,311

* Main Building Use Allowance was recognized as temporarily restricted revenue and corresponding asset in FY03. The release from restriction (revenue) is matched by amortization (expense) in each of the fiscal years FY04, FY05 and FY06. In FY06, additional Use Allowance of USD 426 thousand was recorded. The release from restriction (revenue) will be matched by amortization (expense) of USD 142 thousand in each of the fiscal years FY07, FY08 and FY09.

** Major portion of the fixed assets under construction relates to the new AUBG Classroom Building, operational since August 1, 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. ACCOUNTS PAYABLE

	June 30, 2007	June 30, 2006
	USD'000	USD'000
Payables to vendors and others	56	142
Tax liabilities	10	13
Payables to undergraduate students	5	9
Total	71	164

11. ACCRUED LIABILITIES

	June 30, 2007	June 30, 2006
	USD'000	USD'000
Accrued vacation	157	142
Accrued expenses	157	170
Total	314	312

12. DEFERRED REVENUE AND OTHER LIABILITIES

	June 30, 2007	June 30, 2006
	USD'000	USD'000
Deferred revenue from undergraduate students	289	204
Advance payments for seminars	69	33
Advance ELI payments	37	32
Deferred revenue from graduate students	37	29
Total	432	298

13. UNRESTRICTED NET ASSETS

	USD'000
Unrestricted net assets as of June 30, 2006	5,875
Reclassifications	(59)
Change in unrestricted assets	1,322
Unrestricted net assets as of June 30, 2007	7,138

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. TEMPORARILY RESTRICTED NET ASSETS USD'000

	June 30, 2006 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Additional Endowment Funds Distributed	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications	June 30, 2007 Balance
USAID Endowment fund	15,793	250		(348)	(902)		1,424	46	16,263
ASHA grants	5,608	(15)		(138)				13	5,468
Soros Scholarships	1,207	4,282	(701)	(95)					4,693
OSI New Opportunity/Minority	735		(165)	(1)					569
Anna Chaprashkova Fund	-	926		(44)					882
Main building use allowance	426			(142)					284
Gordon Cadwagan Scholarship	-	183							183
Chris Christerson Scholarship	100		(100)						-
Nando Peretti Foundation	56	6	(25)						37
Blagoevgrad BT	54	(39)	(15)						-
Darrell Fund	50	50	(50)						50
Raiffeisenbank	25	38							63
Duke Franz Foundation	22					(22)			-
Other	464	216	(174)	(124)		(36)			346
Total	24,540	5,897	(1,230)	(892)	(902)	(58)	1,424	59	28,838

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. FEDERAL GRANTS**

The purpose of the USAID Quasi-Endowment Fund is to endow a capital fund to be invested for the benefit of AUBG and to finance the University according to an 8-year plan. The Grant and the income generated by the grant are used by AUBG to achieve financial sustainability independent of US Government assistance by 2008. The fund is for a total amount of USD 20 million, to be disbursed in 4 tranches of USD 5 million each. The four tranches were recognized as income and disbursed as of June 30, 2007.

Further with the Amendment 2 of the Cooperative agreement, USAID pledged additional amounts to AUBG on a matching basis for funds raised for scholarships or unrestricted funds by AUBG during the period October 1, 2004 – July 1, 2006. In December 2006, the amount of USD 1,858,696 was disbursed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007 and 2006

Grant or agency/Program title	Grant number	Expenditure		Capitalized cost		Total	
		FY07 USD'000	FY06 USD'000	FY07 USD'000	FY06 USD'000	FY07 USD'000	FY06 USD'000
<i>U.S. Agency for International Development</i>							
Endowment fund for achieving long-term financial sustainability	183-A-00-02-00102-00	1,250	1,490	-	-	1,250	1,490
Construction of Classroom Building	HSH-G-00-04-000008-00	-	-	770	-	770	-
Open Government Initiative	Letter of Agreement/ June 2006	9	-	-	-	9	-
For scholarship for crisis countries students	EEU-A-00-00-00027-00	-	21	-	-	-	21
Open Government Initiative	Letter of Agreement/ March 2005	-	11	-	-	-	11
Total Expenditure of Federal Awards		1,259	1,522	770	-	2,029	1,522

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007 and 2006

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 year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. 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

Deloitte Audit OOD

September 21, 2007
Sofia, Bulgaria



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ИНГ БАНК

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 year ended June 30, 2007. 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 year ended June 30, 2007.

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.

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
Deloitte Audit OOD

September 21, 2007
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 (the University) for the years ended June 30, 2007 and 2006.

Compliance

The audit disclosed no instances of non-compliance, which are material to the University's financial statements for the years ended June 30, 2007 and 2006.

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 2006 and 2007 reportable under OMB A-133, 510 (a).

Major programs

The following programs were identified as major as of and for the year ended June 30, 2007:

	Grant number
U.S. Agency for International Development	183-A-00-02-00102-00
ASHA Grant	HSH-G-00-04-00008-00/1422888

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.