

AMERICAN UNIVERSITY IN BULGARIA
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

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, 2008 and the related consolidated statements of activities and of cash flows for the year 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, 2008, 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.

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 17, 2008 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 17, 2008
Sofia, Bulgaria

Consolidated Statement of Financial Position as of June 30, 2008 and June 30, 2007

	<i>Note</i>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
		USD'000	USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	5,585	2,232
Accounts receivable and prepayments	4	542	401
Contributions receivable	5	3,326	2,350
Inventories		258	145
Investment property		4	-
Subtotal current assets		<u>9,715</u>	<u>5,128</u>
Long-term assets			
Long-term contributions receivable	5	2,479	3,407
Cash deposits for student loans guarantees, net	6	256	241
Student loans receivable	7	326	380
Investments	8	12,453	15,370
Property, plant and equipment	9	15,080	12,457
Subtotal long term assets		<u>30,594</u>	<u>31,855</u>
TOTAL ASSETS		<u>40,309</u>	<u>36,983</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	10	356	71
Accrued liabilities	11	261	314
Deferred revenue and other liabilities	12	542	432
Subtotal current liabilities		<u>1,159</u>	<u>817</u>
Fund balance			
Unrestricted	13	8,105	7,138
Temporarily restricted	14	26,916	28,838
Permanently restricted		4,129	190
Total fund balance		<u>39,150</u>	<u>36,166</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>40,309</u>	<u>36,983</u>

Signed on behalf of the American University in Bulgaria:



Date: September 17, 2008

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

Consolidated Statement of Activities for the years ended June 30, 2008 and June 30, 2007

	Year ended June 30, 2008				Year ended June 30, 2007			
	Unrestricted	Temp. Res.	Perm. Res.	Total	Unrestricted	Temp. Res.	Perm. Res.	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
REVENUES								
UNDERGRADUATE PROGRAM								
Tuition	7,838	-	-	7,838	6,934	-	-	6,934
AUBG-Funded Scholarships	(1,803)	-	-	(1,803)	(1,685)	-	-	(1,685)
	6,035	-	-	6,035	5,249	-	-	5,249
Interest on Student Loans	97	-	-	97	84	-	-	84
Other Student Fees	304	-	-	304	274	-	-	274
SUBTOTAL UNDERGRADUATE PROGRAM	6,436	-	-	6,436	5,607	-	-	5,607
EMBA	291	-	-	291	231	-	-	231
CONTRIBUTIONS AND GRANTS								
Federal Grants	-	157	-	157	-	1,659	-	1,659
Private Gifts and Grants	141	850	3,736	4,727	438	5,669	119	6,226
External Scholarships	-	(1,388)	-	(1,388)	-	(1,227)	-	(1,227)
Release from Restrictions	509	(509)	-	-	524	(524)	-	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	650	(890)	3,736	3,496	962	5,577	119	6,658
ENDOWMENT INCOME DISTRIBUTED	400	(400)	-	-	348	(348)	-	-
OUTREACH ACTIVITIES								
English Language Institute	209	-	-	209	155	-	-	155
Conferences and Institutes	118	-	-	118	53	-	-	53
Elieff Center Services	177	-	-	177	212	-	-	212
Center for European Programs	426	50	-	476	470	(88)	-	382
SUBTOTAL OUTREACH ACTIVITIES	930	50	-	980	890	(88)	-	802
AUXILIARY ACTIVITIES								
Bookstore	166	-	-	166	114	-	-	114
Residence Life	762	-	-	762	721	-	-	721
Dining Services	380	-	-	380	319	-	-	319
SUBTOTAL AUXILIARY ACTIVITIES	1,308	-	-	1,308	1,154	-	-	1,154
OTHER REVENUES	96	-	-	96	116	-	-	116
TOTAL REVENUES	10,111	(1,240)	3,736	12,607	9,308	5,141	119	14,568

Consolidated Statement of Activities for the years ended June 30, 2008 and June 30, 2007 (continued)

	Year ended June 30, 2008			Year ended June 30, 2007		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
EXPENSES						
EDUCATION AND GENERAL						
Instruction	3,262	-	-	2,702	-	-
Academic Support	1,205	-	-	1,118	-	-
Student Services	470	-	-	400	-	-
SUBTOTAL EDUCATION AND GENERAL	4,937	-	-	4,220	-	-
EMBA	334	-	-	315	-	-
DEVELOPMENT AND UNIVERSITY RELATIONS	275	-	-	203	-	-
INSTITUTIONAL SUPPORT	534	-	-	436	-	-
Division of Finance	359	-	-	202	-	-
Physical Plant	1,477	-	-	1,581	-	-
Operations and Administration	2,370	-	-	2,219	-	-
SUBTOTAL INSTITUTIONAL SUPPORT	4,770	-	-	4,436	-	-
OUTREACH ACTIVITIES	192	-	-	158	-	-
English Language Institute	107	-	-	56	-	-
Conferences and Institutes	249	-	-	254	-	-
Elieff Center Services	226	-	-	354	-	-
Center for European Programs	774	-	-	822	-	-
SUBTOTAL OUTREACH ACTIVITIES	1,366	-	-	1,267	-	-
AUXILIARY ACTIVITIES	151	-	-	127	-	-
Bookstore	799	-	-	764	-	-
Residence Life	416	-	-	376	-	-
Dining Services	1,366	-	-	1,267	-	-
SUBTOTAL AUXILIARY ACTIVITIES	(203)	-	-	(102)	-	(102)
Student Loans/ Fees Reversals	9,853	-	-	8,944	-	-
TOTAL EXPENSES	258	(1,240)	3,736	364	5,141	119
OPERATING SURPLUS (DEFICIT)	987	(987)	-	1,250	(1,250)	-
Endowment Drawdown	(400)	400	-	(348)	348	-
Endowment Income Distributed	230	-	-	56	-	-
Other Gains and (Losses)	1,075	(1,827)	3,736	1,322	4,239	119
CHANGE IN NET ASSETS	2,984	(1,827)	2,984	5,624	(1,250)	5,680

Consolidated Statement of Cash Flows for the years ended June 30, 2008 and June 30, 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Cash flows from operating activities		
Change in fund balance	2,984	5,680
Adjustments to change in fund balance:		
Revenue from fund-raising activities	(4,984)	(7,875)
(Increase) in accounts receivable, prepayments, and inventories	(254)	(79)
Increase in current liabilities	342	43
Decrease in student loans receivable	54	82
(Increase) in cash deposits for student loans guarantees	(15)	(10)
Depreciation and amortization	954	812
Net book value of disposed fixed assets	5	5
In-kind donation of fixed assets	(21)	(13)
In-kind donation of investment securities	(134)	(265)
Net cash used by operating activities other than fund-raising	<u>(1,069)</u>	<u>(1,620)</u>
Revenue from fund-raising activities	4,984	7,875
(Increase) Decrease in contributions receivable	(48)	3,777
Net cash provided by fund-raising activities	<u>4,936</u>	<u>11,652</u>
Net cash provided by operating activities	3,867	10,032
Cash flows from investing activities		
Construction and purchase of equipment	(3,566)	(3,955)
(Purchase) of investment securities	(1,199)	(7,977)
Sale of investment securities	3,737	1,154
Loss (Gain) from investing activities	509	(1,298)
Proceeds from sale of fixed assets	5	5
Cash flow from investing activities	<u>(514)</u>	<u>(12,071)</u>
Increase (Decrease) in cash for the period	3,353	(2,039)
Cash at the beginning of the period	<u>2,232</u>	<u>4,271</u>
Cash at the end of the period	<u><u>5,585</u></u>	<u><u>2,232</u></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, 2008 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:

	BGN to one USD	
	June 30, 2008	June 30, 2007
Exchange rates	1.24069	1.44823

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)**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. Statement of Financial Accounting Standards No.105 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. As of June 30, 2008, the University is not exposed to interest risk since it is not using any borrowed funds.

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, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Cash in Common fund Short Term Funds	3,118	896
Cash on hand/bank deposits for operating needs	1,696	1,020
Deposits with donor-imposed restrictions	729	77
Deposits with the Community Foundation	42	239
Total	<u>5,585</u>	<u>2,232</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. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Accounts receivable	267	41
Deferred expenses	166	103
Prepayments and advances	70	6
Tax receivables	9	193
Receivables from graduate students	4	4
Receivables from undergraduate students	39	110
Less allowance for uncollectible student fees	(13)	(56)
Total	<u>542</u>	<u>401</u>

Allowances for uncollectible student fees as of June 30, 2008 have been calculated as follows:

	<u>Gross fee</u>	<u>Allowance %</u>	<u>Allowance amount</u>
Past due less than one year	26	-	-
Past due over one year	13	100%	13
Total	<u>39</u>		<u>13</u>

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable falling due within one year are comprised of:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Athanas Zamphiroff	1,400	-
Soros Scholarships	1,350	1,000
Elvin Guri	250	-
OSI New Opportunity/Minority	125	125
OSI Turkmen Students Scholarships	42	-
Salgo	36	36
Raiffeisen Bank	31	38
Nando Peretti Foundation	24	49
ASHA	-	770
Anna Chaprashikova	-	77
Other	68	255
Total	<u>3,326</u>	<u>2,350</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. CONTRIBUTIONS RECEIVABLE (continued)

Long-term contributions receivable are comprised of:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Soros Scholarships	2,360	3,282
OSI Turkmen Students Scholarships	119	-
OSI New Opportunity/Minority	-	125
Total	<u>2,479</u>	<u>3,407</u>

The Soros Scholarships grant is to provide scholarships to international students. USD 1 million for the 2008/2009 academic year was recognized as income and contribution receivable. The remaining USD 2,360 thousand are recognized as long-term contribution receivable.

6. 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, 2008</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2007</u>
BG students/ principal EUR'000	578	95	646	107
International students/ principal EUR'000	260	86	276	91
Total Principal and Guarantee Fund EUR'000	838	181	922	198
<i>Total Guarantee Fund/ USD'000</i>		<i>286</i>		<i>268</i>
<i>Less allowance for bad debts/ USD'000</i>		<i>(30)</i>		<i>(27)</i>
<i>Net Guarantee Fund/ USD'000</i>		<u><i>256</i></u>		<u><i>241</i></u>

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 2008 is USD 286 thousand and is pledged in favor of the Bank.

7. STUDENT LOANS RECEIVABLE

	<u>July 1, 2007 -</u>	<u>July 1, 2006 -</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Principal value of student loans at the beginning of the reporting period	2,551	2,743
Add new loans issued	123	6
Deduct student loan repayments made during the period - direct cash	(370)	(266)
Add student loan interest payments	97	84
Deduct loan principal write offs (contractual forgiveness)	(10)	(16)
Principal value of student loans at the end of the reporting period	2,391	2,551
Less provision for uncollectible loans	(2,065)	(2,171)
Student loans receivable	<u>326</u>	<u>380</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. STUDENT LOANS RECEIVABLE (CONTINUED)**

The provision for uncollectible loans as of June 30, 2008 has been calculated as follows:

Loan status	Count	Loan Balance USD'000	% Allowance	Provision	Total Amount
				Amount USD'000	Receivable USD'000
Fully repaid	870	-	-	-	-
Not due	52	162	50%	81	81
Repayment - not past due	173	429	50%	215	214
Past due 1 - 90 days	46	123	80%	98	25
Past due 91 - 119 days	6	18	90%	16	2
Past due 120 days - 1 year	31	90	95%	86	4
Past due 1 year - 3 years	99	307	100%	307	-
Past due 3 years or more	273	1,262	100%	1,262	-
	1550	2,391		2,065	326

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, 2008 Fair Value USD'000	June 30, 2007 Fair Value USD'000
USAID Quasi – Endowment Fund		
International Equity Fund	4,450	4,934
Core Equity Fund	3,065	3,326
High Quality Bond Fund	1,488	2,442
Global Bond Fund	1,452	2,284
Equity Index Fund	1,353	1,662
Real Estate Securities Fund	29	718
Subtotal USAID Quasi – Endowment Fund:	11,837	15,366
Pooled Endowment Fund		
International Equity Fund	206	-
Equity Index Fund	103	-
Core Equity Fund	102	-
High Quality Bond Fund	72	-
Global Bond Fund	71	-
Real Estate Securities Fund	19	-
Subtotal Pooled Endowment Fund:	573	-
Other Investments	43	4
Total	12,453	15,370

The University has invested USD 12,727 thousand in USAID Quasi-Endowment Fund allocated in six Commonfund's funds. In FY08, AUBG invested additional USD 599 thousand in Pooled Endowment Fund following the same Asset Allocation. 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, 2008	June 30, 2007
	USD'000	USD'000
Land	132	132
Buildings	12,286	8,801
Less: accumulated depreciation	(1,674)	(1,385)
Buildings Net Book Value	10,612	7,416
Main building use allowance *	1,116	1,116
Less: accumulated amortization	(974)	(832)
Main Building Use Allowance Net Book Value	142	284
Office machines and equipment	1,995	1,743
Less: accumulated depreciation	(1,668)	(1,407)
Office Machines and Equipment Net Book Value	327	336
Motor vehicles	108	135
Less: accumulated depreciation	(92)	(112)
Motor Vehicles Net Book Value	16	23
Furniture and fixtures	1,490	1,415
Less: accumulated depreciation	(943)	(785)
Furniture and Fixtures Net Book Value	547	630
Library books	561	524
Less: accumulated depreciation	(404)	(357)
Library Books Net Book Value	157	167
Other intangible assets	277	214
Less: accumulated amortization	(221)	(187)
Other Intangible Assets Net Book Value	56	27
Assets under construction**	3,091	3,442
Total Book Value	21,056	17,522
Less: Amortization and Depreciation	(5,976)	(5,065)
Total Net Book Value	15,080	12,457

* 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 Library.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. ACCOUNTS PAYABLE

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Tax liabilities	241	10
Payables to vendors and others	105	56
Payables to undergraduate students	10	5
Total	<u>356</u>	<u>71</u>

11. ACCRUED LIABILITIES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Accrued vacation	192	157
Accrued expenses	69	157
Total	<u>261</u>	<u>314</u>

12. DEFERRED REVENUE AND OTHER LIABILITIES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	USD'000	USD'000
Deferred revenue from undergraduate students	361	289
Advance ELI payments	92	37
Advance payments for seminars	49	69
Deferred revenue from graduate students	40	37
Total	<u>542</u>	<u>432</u>

13. UNRESTRICTED NET ASSETS

	<u>USD'000</u>
Unrestricted net assets as of June 30, 2007	7,138
Reclassifications	(108)
Change in unrestricted assets	1,075
Unrestricted net assets as of June 30, 2008	<u>8,105</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. TEMPORARILY RESTRICTED NET ASSETS USD'000

	June 30, 2007 Balance	Contributions for the year	Scholarships	Satisfaction of program restrictions	Additional Endowment Funds Distributed	Satisfaction of equipment acquisition	Program Income (Loss)	Reclassifications	June 30, 2008 Balance
USAID Endowment fund	16,263	-	-	(400)	(587)	-	(444)	-	14,832
ASHA grants	5,468	600	-	(153)	-	-	-	-	5,915
Soros Scholarships	4,693	78	(937)	(106)	-	-	-	-	3,728
OSI New	569	-	(180)	-	-	-	-	-	389
OSI Turkmen Students	-	161	-	-	-	-	-	-	161
Anna Chaprashikova Fund	882	108	-	(29)	-	-	-	(100)	861
Elvin Guri	-	250	-	-	-	-	-	-	250
Main building use	284	-	-	(142)	-	-	-	-	142
Gordon Cadwagan	183	-	(92)	-	-	-	-	-	91
Dimi Panitza Library Fund	-	104	-	-	-	-	-	-	104
Raiffeisen Bank	63	-	-	-	-	-	-	-	63
Darrell Fund	50	-	(50)	-	-	-	-	-	-
Gates Helms Hawn	31	1	(1)	-	-	-	-	-	31
Nando Peretti Foundation	37	-	(27)	-	-	-	-	-	10
Other	315	265	(117)	(95)	-	(34)	-	5	339
Total	28,838	1,567	(1,404)	(925)	(587)	(34)	(444)	(95)	26,916

NOTES TO THE FINANCIAL STATEMENTS (continued)**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended June 30, 2008 and 2007

Grant or agency/Program title	Grant number	Expenditure		Capitalized cost		Total	
		FY08 USD'000	FY07 USD'000	FY08 USD'000	FY07 USD'000	FY08 USD'000	FY07 USD'000
<i>U.S. Agency for International Development</i>							
Endowment fund for achieving long-term financial sustainability	183-A-00-02-00102-00	987	1,250	-	-	987	1,250
Construction of Classroom Building	HSH-G-00-04-000008-00	-	-	-	770	-	770
Construction of Library	HSH-G-00-06-00013-00	-	-	600	-	600	-
Open Government Initiative	Letter of Agreement/ June 2006	-	9	-	-	-	9
Total Expenditure of Federal Awards		987	1,259	600	770	1,587	2,029

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008 and 2007

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, 2008, and have issued our report thereon dated September 17, 2008. 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 17, 2008
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 year ended June 30, 2008. 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, 2008.

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 17, 2008
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, 2008.

Compliance

The audit disclosed no instances of non-compliance, which are material to the University's financial statements for the year ended June 30, 2008.

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 2008 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, 2008:

	Grant number
U.S. Agency for International Development	183-A-00-02-00102-00
ASHA Grant	HSH-G-00-04-00008-00/1422-888
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.