

AMERICAN UNIVERSITY IN BULGARIA

CONSOLIDATED FINANCIAL STATEMENTS
as of and for the year ended June 30, 2012,
Supplemental Information for the year ended June 30, 2012,
Independent Auditors' Reports and
Schedule of Findings and Questioned Costs
for the year ended June 30, 2012

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Report of Independent Auditors

To the Board of Trustees of American University in Bulgaria

We have audited the accompanying consolidated statement of financial position of American University in Bulgaria as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the American University in Bulgaria's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph we conducted our audit in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by chapter 3, paragraphs 3.50 and 3.55 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Bulgaria. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the Ernst & Young Global Assurance Quality Review (AQR) program to evaluate the design and operating effectiveness of the country practice's quality control policies and procedures covering its assurance engagements. The objectives of the AQR program is to determine whether we (a) are conducting our assurance engagements in accordance with relevant professional standards and with the applicable policies, and (b) have established and documented adequate control policies and procedures and are complying with them. Furthermore, we are also subject to assurance quality reviews by the Commission for Public Oversight of Statutory Auditors in Bulgaria. In addition, we do not have a continuing education program that fully satisfies the requirement set forth in chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 80 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the American University in Bulgaria as of June 30, 2012, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2012 on our consideration of the American University in Bulgaria's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.


Ernst & Young
Ernst & Young Audit

September 18, 2012

Consolidated Statements of Financial Position as of June 30, 2012 and June 30, 2011

	<i>Note</i>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
		USD'000	USD'000
ASSETS			
Current assets			
Cash and cash equivalents	3	3,989	6,810
Accounts receivable and prepayments	4	446	654
Contributions receivable	5	8,555	5,224
Inventories		221	268
Investment property held for sale	6	277	81
Subtotal current assets		13,488	13,037
Long-term assets			
Long-term contributions receivable	5	6,855	4,517
Cash deposits for student loans guarantees, net	7	14	22
Student loans receivable, net	8	82	123
Investments	9	17,075	15,650
Property, plant and equipment and intangible assets	10	32,236	24,661
Subtotal long term assets		56,262	44,973
TOTAL ASSETS		69,750	58,010
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term borrowings	11	1,138	1,983
Accounts payable	12	149	122
Accrued liabilities and current portion of retirement benefits	13	266	345
Deferred revenue and other liabilities	14	744	761
Subtotal current liabilities		2,297	3,211
Long-term liabilities			
Long-term debt	15	9,208	2,950
Retirement benefit provision	16	158	122
Subtotal long-term liabilities		9,366	3,072
TOTAL LIABILITIES		11,663	6,283
Net assets			
Unrestricted	17	9,556	9,714
Temporarily restricted	18	42,325	35,897
Permanently restricted		6,206	6,116
TOTAL NET ASSETS		58,087	51,727
TOTAL LIABILITIES AND NET ASSETS		69,750	58,010

Signed on behalf of the American University in Bulgaria:



Date: September 18, 2012

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

Consolidated Statements of Activities for the years ended June 30, 2012 and June 30, 2011

	Year ended June 30, 2012			Year ended June 30, 2011		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
REVENUES	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
UNDERGRADUATE PROGRAM						
Tuition	9,678	-	-	9,106	-	-
Institutionally-Funded Scholarships	(2,552)	-	-	(2,129)	-	-
Externally-Funded Scholarships	(2,167)	-	-	(2,097)	-	-
	4,959	-	-	4,880	-	-
Interest on Student Loans	29	-	-	38	-	-
Other Student Fees, net of 16/26 externally-funded scholarships	319	-	-	290	-	-
SUBTOTAL UNDERGRADUATE PROGRAM	5,307	-	-	5,208	-	-
CONTRIBUTIONS AND GRANTS						
Federal Grants	-	1,318	-	1	997	-
Private Gifts and Grants	181	10,000	89	419	7,162	33
Release from Restrictions	3,561	(3,561)	-	3,327	(3,327)	-
SUBTOTAL CONTRIBUTIONS AND GRANTS	3,742	7,757	89	3,747	4,832	33
ENDOWMENT INCOME DISTRIBUTED	570	(570)	-	560	(560)	-
OUTREACH ACTIVITIES						
English Language Institute	466	(11)	-	379	(23)	-
Conferences and Institutes	220	-	-	122	-	-
Ehleff Center Services	119	-	-	164	-	-
Center for European Programs	166	(29)	-	112	198	-
Graduate Programs	293	-	-	325	-	-
SUBTOTAL OUTREACH ACTIVITIES	1,264	(40)	-	1,102	175	-
AUXILIARY ACTIVITIES						
Bookstore, net of 17/24 externally-funded scholarships	165	-	-	170	-	-
Residence Life, net of 77/124 externally-funded scholarships	1,098	-	-	982	-	-
Dining Services, net of 38/51 externally-funded scholarships	235	-	-	214	-	-
SUBTOTAL AUXILIARY ACTIVITIES	1,498	-	-	1,366	-	-
OTHER REVENUES	71	-	-	88	-	-
TOTAL REVENUES	12,452	7,147	89	12,071	4,447	33

16,551

Consolidated Statements of Activities for the years ended June 30, 2012 and June 30, 2011

	Year ended June 30, 2012			Year ended June 30, 2011		
	Unrestricted	Temp. Res.	Perm. Res.	Unrestricted	Temp. Res.	Perm. Res.
EXPENSES	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
EDUCATION AND GENERAL						
Instruction and Research	3,845	-	-	3,737	-	-
Academic Support	1,710	-	-	1,610	-	-
Student Services	604	-	-	562	-	-
SUBTOTAL EDUCATION AND GENERAL	6,159	-	-	5,909	-	5,909
DEVELOPMENT AND UNIVERSITY RELATIONS						
	520	-	-	475	-	-
INSTITUTIONAL SUPPORT						
Division of Finance	515	-	-	574	-	-
Physical Plant	211	-	-	64	-	-
Operations and Administration	1,699	-	-	1,622	-	-
SUBTOTAL INSTITUTIONAL SUPPORT	2,425	-	-	2,260	-	2,260
OUTREACH ACTIVITIES						
English Language Institute	412	-	-	421	-	-
Conferences and Institutes	196	-	-	122	-	-
Elieff Center Services	268	-	-	266	-	-
Center for European Programs	211	-	-	145	-	-
Graduate Programs	339	-	-	357	-	-
SUBTOTAL OUTREACH ACTIVITIES	1,426	-	-	1,311	-	1,311
AUXILIARY ACTIVITIES						
Bookstore	183	-	-	181	-	-
Residence Life	1,128	-	-	1,128	-	-
Dining Services	343	-	-	341	-	-
SUBTOTAL AUXILIARY ACTIVITIES	1,654	-	-	1,650	-	1,650
Scholarships for External Graduate Studies	227	-	-	151	-	-
Student Loans/ Fees Reversals	(44)	-	-	(78)	-	-
Other Expenses	41	-	-	169	-	-
TOTAL EXPENSES	12,408	-	-	11,947	-	11,947
OPERATING SURPLUS (DEFICIT)	44	7,147	89	224	4,447	33
Endowment Drawdown	570	(570)	-	(1,040)	1,040	-
Endowment Income Distributed	(570)	570	-	(560)	560	-
Other Gains and (Losses)	(360)	(560)	-	46	2,924	-
CHANGE IN NET ASSETS before reclassifications	(316)	6,587	89	(1,330)	8,971	33
Date: September 18, 2012						
The accompanying notes form an integral part of these consolidated financial statements.						

Consolidated Statements of Cash Flows for the years ended June 30, 2012 and June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	USD'000	USD'000
Cash flows from operating activities		
Change in fund balance	6,360	7,674
Adjustments to change in fund balance:		
Revenue from fund-raising activities	(11,691)	(8,840)
Decrease/(Increase) in accounts receivable, prepayments, and inventories	255	(63)
(Decrease)/Increase in current liabilities and retirement benefits	(24)	496
Decrease in student loans receivable, net	41	70
Decrease in cash deposits for student loans guarantees	8	33
Depreciation and amortization (Note 10)	1,521	1,374
Net book value of disposed property, plant and equipment	1	4
In-kind donation of property, plant and equipment and investment property	(207)	(12)
In-kind donation of investment securities	(8)	(5)
Net cash (used in) provided by operating activities other than fund-raising	<u>(3,744)</u>	<u>731</u>
Revenue from fund-raising activities	11,691	8,840
Increase in contributions receivable	(5,669)	(3,257)
Net cash provided by fund-raising activities	<u>6,022</u>	<u>5,583</u>
Net cash provided by operating activities	<u>2,278</u>	<u>6,314</u>
Cash flows from investing activities		
Construction and purchase of property, plant and equipment (Note 10)	(9,086)	(1,149)
Purchase of investment securities	(5,510)	(8,210)
Sale of investment securities	3,468	8,215
Loss/(Gain) from investing activities	625	(2,961)
Cash flow used in investing activities	<u>(10,503)</u>	<u>(4,105)</u>
Cash flow from financing activities		
Decrease in short-term borrowings	(846)	(121)
Proceeds from long-term debt, net	6,250	2,950
Cash flow from financing activities	<u>5,404</u>	<u>2,829</u>
(Decrease)/Increase in cash and cash equivalents for the year	<u>(2,821)</u>	<u>5,038</u>
Cash and cash equivalents at the beginning of the year	<u>6,810</u>	<u>1,772</u>
Cash and cash equivalents at the end of the year	<u>3,989</u>	<u>6,810</u>

Cash flows from operating activities reflect interest payments of USD 92 thousand in FY 2011-2012 (net of USD 145 thousand capitalized interests), and USD 36 thousand in FY 2010-2011 (net of USD 10 thousand capitalized interests).

Date: September 18, 2012

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

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

The American University in Bulgaria (“AUBG” or “the University”) is a not-for-profit organization registered in the State of Maine. The University is exempt from US Federal income tax under Section 501C(3) of the US Internal Revenue Code.

The establishment of the University in 1991 was facilitated through the joint cooperation of the Initiative Committee established by the Republic of Bulgaria, the City of Blagoevgrad, Bulgaria and private and public funding sources. At the time of the establishment of the University, the laws of Bulgaria did not provide for the establishment of private educational institutions; therefore the University was incorporated in the Blagoevgrad Regional Courts as a Bulgarian not-for-profit organization. Legislation was subsequently enacted by the Bulgarian National Assembly recognizing the University as an institution of higher learning. Furthermore, the Bulgarian Ministry of Finance has acknowledged the status of the University as a “budget institution” enjoying exemption from some taxes and duties such as taxes on profits and certain exemptions for Value Added Tax.

The University offers undergraduate and graduate programs. The American University in Bulgaria maintains a campus located in Blagoevgrad.

At the end of 2001, the American University Service Company (AUSC), a wholly-owned subsidiary headquartered in Sofia, Bulgaria, was established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1. Basis of preparation**

The consolidated financial statements of the University are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for non-profit organizations. The statement of activities presents the financial activities by type of net assets related to the reporting periods.

2.2. Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Estimates are made in the areas of accounts receivable, contributions receivable, inventories, investments and retirement benefits.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of AUBG and AUSC, a wholly-owned subsidiary controlled by AUBG. Control is achieved where AUBG owns the majority voting interest, which is defined as direct or indirect ownership of fifty percent or more of the outstanding voting shares of another company.

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

All significant inter-company transactions and balances between AUBG and AUSC have been eliminated in the accompanying consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4. Types of net assets**

Unrestricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants may be used at the discretion of the Board of Trustees or their designees to meet current expenditures for any purpose in achieving the primary objectives of the University.

Temporary restricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants may be used only to meet current expenditures for the purposes specifically identified by the donors or by sponsoring agencies.

Permanently restricted net assets derived from educational and general operations of the University and from appropriations, gifts and grants are to be invested and only the income earned from the investment may be used to meet current expenditures for the purposes specifically identified by the donors or by the Board of Trustees if there are no specifically identified purposes.

2.5. Cash and cash equivalents

Cash includes cash on hand and bank deposits held by financial institutions that can be added to or withdrawn without limitation.

Cash equivalents are short-term, highly-liquid investments that are both readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates.

2.6. Prepayments and advances

Prepayments and advances represent payments to suppliers for goods and services, which have not been received by the end of the period.

2.7. Inventories

Inventories are recorded at the lower of cost or net realizable value. They predominantly represent supplies at the Bookstore, fuel, and goods and beverages at the canteen and cafeterias. Inventories are expensed applying weighted-average cost method.

2.8. Student Loans Receivable

Student Loans Portfolio is valued at market value representing the principal value of student loans less the provision for uncollectible loans. The provision percentage is based on the best management estimate. The interest income is recognized in the period when its collection is most probable.

2.9. Accounts Receivable

Accounts receivable represents amounts due from customers arising from transactions in the ordinary course of business. Twice a year, a complete review of all outstanding accounts receivable is made, a determination of doubtful accounts is made and allowance for bad debts is determined. This procedure is applicable to individual receivables or to groups of similar types of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.10. Accounts Payable**

Accounts payable are obligations, the liquidation of which is reasonably expected to require the use of existing resources properly classified as current assets, or the creation of current obligation. Current liabilities include obligations arising from the acquisition of goods and services entering the operating cycle (accounts payable, taxes payable, wages payable and other miscellaneous payables) and other obligations maturing within the current operating cycle to be met through the use of current assets, or an overdraft.

2.11. Long-term Debt

The University's long-term debt is presented under the interest method.

Costs incurred for obtaining new loan or refinancing existing loans are deferred and amortized over the term of the respective loan, using the effective interest rate method.

2.12. Investments

Investments are carried at market value, and realized and unrealized gains and losses are reflected in the Statement of Activities. In accounting for investments, the University follows the guidance contained in the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") #958-320 "Not-for-profit entities – Investments in Debt and Equity Securities" and ASC #820 "Fair Value Measurements.". Investments in equities and securities with readily determinable fair values as well as all investments in debt securities are reported at fair value as of the date of the consolidated financial statements in the statement of financial position. Fair value of investments is classified according to the Fair Value Hierarchy at Level 2 - observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities (see Note 9). Gains and losses on investments are reported in the statement of activities as increases or decreases in the respective net assets as per explicit donor stipulations or law.

2.13. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded at cost when purchased or constructed, or at fair market value when acquired by gift. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Buildings	40
Office equipment	2 – 6
Vehicles	7 – 12
Furniture and fixtures	3 – 7
Library books	5 – 7
Software	2 – 5

Payments for the maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

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 CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.13. Property, plant and equipment and intangible assets (continued)****Impairment of long lived assets**

Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recoverable. When such indicators are present, a long-lived asset to be held and used is tested for recoverability by comparing the estimate of future undiscounted net operating cash flows expected to be generated by the use of the long-lived asset over its remaining useful life and its eventual disposition to its carrying amount. Should the carrying value of the long-lived asset exceed its estimated future undiscounted net operating cash flows, impairment is measured based on the excess of the carrying amount over the fair market value of the long-lived asset.

2.14. Investment property held for sale

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

2.15. Contributions, gifts and grants

The University reports contributions, gifts of cash and other assets as restricted support if they are received with donor stipulations that set purpose and time restrictions on the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. If there are no explicit donor stipulations about how long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

2.16. Pension plans

The government of Bulgaria through its national pension plan is responsible for providing pensions for Bulgarian citizens. A regular contribution is made to the State to fund the plan. In addition, since July 1, 2004, AUBG is making a BGN 40 (USD 26 as of June 30, 2012) monthly contribution for each full-time Bulgarian employee.

2.17. Retirement benefit provision

In accordance with the Bulgarian Labor Code, the University owes retirement benefits to its employees. The retirement benefit for employees who have worked for the University for more than 10 years is 6 gross monthly salaries. Employees who have worked for the University for less than 10 years are entitled to 2 gross monthly salaries. The Retirement Benefit Provision represents the present value of the payable of these benefits.

2.18. 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.18. Foreign currency translation (continued)**

	BGN to one USD	
	June 30, 2012	June 30, 2011
Exchange rates	1.55348	1.35323

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.

2.19. Revenue Recognition

Tuition and fees and certain auxiliary activities revenues are recorded as revenues in the year during which the related services are provided. Funds received in advance of services provided are included in Deferred revenue.

Contributions, including unconditional promises to give, are recognized as revenue in the period pledged or received and are reported as increases in the appropriate class of net assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate.

Other revenues are recognized at the time of delivery of goods, or providing of services, irrespective of the time when the cash is received.

2.20. 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.

2.21. Concentration of credit risk

The University occasionally maintains deposits in excess of the insured limits. FASB ASC #825 "Financial Instruments" identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

2.22. 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.

2.23. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24. Risk Management

The University is exposed to various risks of loss: torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of employees and their dependents. The University manages these risks through commercial insurance.

2.25. Fair Value Measurements

When assets or liabilities in the financial statements are to be measured at fair value, the University defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The University has elected not to report any existing financial assets or liabilities at fair value that are not already reported as such.

3. CASH AND CASH EQUIVALENTS

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	USD'000	USD'000
Cash on hand/bank deposits	2,672	3,340
Deposits with donor-imposed restrictions	1,314	3,467
Deposits with the Community Foundation	3	3
Total	<u>3,989</u>	<u>6,810</u>

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	USD'000	USD'000
Deferred expenses	146	185
Accounts receivable	136	397
Prepayments and advances	123	45
Tax receivables	2	2
Receivables from students, net of USD 8 / 8 thousand allowance	39	25
Total	<u>446</u>	<u>654</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable falling due within one year are comprised of:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	USD'000	USD'000
America for Bulgaria Foundation	6,623	3,074
ASHA	979	536
OSI Scholarships	450	1,201
European Union	165	250
Aristotle University of Thessaloniki	103	-
Hellenic Fashion Industry Association (SEPEE)	63	-
Elvin Guri	50	50
Other	122	113
Total	8,555	5,224

Long-term contributions receivable are comprised of:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	USD'000	USD'000
America for Bulgaria Foundation	5,590	2,950
OSI Scholarships	604	954
Elvin Guri	541	580
Albanian-American Development Foundation	79	-
Other	41	33
Total	6,855	4,517

All amounts are receivable within five years and are discounted using the interest rate for loans to non-profit organizations, for new businesses, up to 1 million Euro, contracted in Euro, published by the Bulgarian National Bank.

Contributions received in the year ended June 30, 2012 from members of the Board of trustees are USD 166 thousand (2011: USD 713 thousand) and contributions receivable as at June 30, 2012 from members of the Board of trustees are USD 609 thousand (2011: USD 629 thousand).

6. INVESTMENT PROPERTY HELD FOR SALE

Investment property held for sale in the amount of USD 277 thousand as of June 30, 2012 (2011: USD 81 thousand) represents land in Bankia bequeathed by Anna Tchaprachikoff.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. CASH DEPOSITS FOR STUDENT LOANS GUARANTEES

	Loan Balance June 30, 2012	Guarantee Fund June 30, 2012	Loan Balance June 30, 2011	Guarantee Fund June 30, 2011
BG students/ principal EUR'000	401	-	463	-
International students/ principal EUR'000	293	59	215	43
Total Principal and Guarantee Fund EUR'000	694	59	678	43
<i>Total Guarantee Fund/ USD'000</i>		<i>74</i>		<i>62</i>
<i>Less allowance for bad debts/ USD'000</i>		<i>(60)</i>		<i>(40)</i>
Net Guarantee Fund/ USD'000		14		22

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, 2012 is USD 34 thousand and USD 40 thousand, respectively, (2011: USD 38 thousand and USD 24 thousand, respectively) pledged in favor of the Banks. The University guarantees the loans granted to the international students. In case of non-repayment, the maximum exposure payable by AUBG as of June 30, 2012 would be USD 281 thousand (2011: USD 222 thousand).

8. STUDENT LOANS RECEIVABLE

	July 1, 2011 - June 30, 2012	July 1, 2010 - June 30, 2011
	USD'000	USD'000
Principal value of student loans at the beginning of the reporting period	1,974	2,129
Add new loans issued	12	23
Deduct student loan repayments made during the period - direct cash	(120)	(206)
Add student loan interest payments	29	38
Deduct loan principal write-offs (contractual forgiveness)	(2)	(10)
Principal value of student loans at the end of the reporting period	1,893	1,974
Less provision for uncollectible loans	(1,811)	(1,851)
Student loans receivable, net	82	123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. STUDENTS LOANS RECEIVABLE (continued)

The provisions for uncollectible loans as of June, 2012 and June 30, 2011 have been calculated as follows:

Loan status	Count	Loan Balance	% Allowance	Provision	Total Amount
June 30, 2012				Amount	Receivable
		USD'000		USD'000	USD'000
Fully repaid	1081	-	-	-	-
Not due	74	133	50%	66	67
Past due 1 - 119 days	28	59	80%	46	13
Past due 120 days - 1 year	23	35	95%	33	2
Past due 1 year or more	429	1,666	100%	1,666	-
	1635	1,893		1,811	82

Loan status	Count	Loan Balance	% Allowance	Provision	Total Amount
June 30, 2011				Amount	Receivable
		USD'000		USD'000	USD'000
Fully repaid	1050	-	-	-	-
Not due	103	214	50%	107	107
Past due 1 - 119 days	26	58	80%	45	13
Past due 120 days - 1 year	26	60	95%	57	3
Past due 1 year or more	424	1,642	100%	1,642	-
	1629	1,974		1,851	123

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 CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS

	June 30, 2012 Fair Value USD'000	June 30, 2011 Fair Value USD'000
USAID Quasi – Endowment Fund		
Multi-Strategy Equity Fund	7,544	6,244
International Equity Fund	3,021	3,398
Global Bond Fund	1,100	2,660
High Quality Bond Fund	1,091	1,013
Equity Index Fund	46	92
Real Estate Securities Fund	42	37
Core Equity Fund	31	107
Subtotal USAID Quasi – Endowment Fund:	12,875	13,551
Pooled Endowment Fund		
Multi-Strategy Equity Fund	2,068	1,007
International Equity Fund	790	583
High Quality Bond Fund	628	106
Global Bond Fund	617	291
Equity Index Fund	41	41
Real Estate Securities Fund	28	25
Core Equity Fund	28	46
Subtotal Pooled Endowment Fund:	4,200	2,099
Total	17,075	15,650

Additionally, AUBG invested USD 1,479 thousand as at June 30, 2012 (2011: USD 1,736 thousand) in *State Street Institutional US Government Money Market Fund*, included in Note 3, Cash and Cash Equivalents.

The University invests its USAID Quasi-Endowment Fund and Pooled Endowment Fund with Commonfund. The management intends to hold the investments for a period longer than one year.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the University's valuation methodologies for assets and liabilities measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS (continued)

The fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.

The fair value of Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as they trade infrequently or not at all.

Fair value level of investments is determined according to Fair Value Hierarchy as follows:

	Fair Value Measurement at Reporting Date			
	Using			
	Quoted prices in Active Markets for Identical Assets (Level 1) USD'000	Significant Other Observable Inputs (Level 2) USD'000	Significant Unobservable Inputs (Level 3) USD'000	
June 30, 2012 USD'000				
Multi-Strategy Equity Fund	9,612	9,612		
International Equity Fund	3,811	3,811	-	
High Quality Bond Fund	1,719	1,719	-	
Global Bond Fund	1,717	1,717	-	
Equity Index Fund	87	87	-	
Real Estate Securities Fund	70	70	-	
Core Equity Fund	59	59	-	
Total:	17,075	17,075	-	

	Fair Value Measurement at Reporting Date			
	Using			
	Quoted prices in Active Markets for Identical Assets (Level 1) USD'000	Significant Other Observable Inputs (Level 2) USD'000	Significant Unobservable Inputs (Level 3) USD'000	
June 30, 2011 USD'000				
Multi-Strategy Equity Fund	7,251	7,251		
International Equity Fund	3,981	3,981	-	
Global Bond Fund	2,951	2,951	-	
High Quality Bond Fund	1,119	1,119	-	
Core Equity Fund	153	153	-	
Equity Index Fund	133	133	-	
Real Estate Securities Fund	62	62	-	
Total:	15,650	15,650	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS (continued)

AUBG manages its endowment and quasi-endowment funds in a way which protects the real purchasing power of the endowment over time, avoids large or no increases in some years, and preserves and enhances the growth of principal. To this end, the University has adopted the “Yale Formula”, which provides annual cash distribution to the University. The endowment earnings distributed are calculated as 70% of the allowable spending in the prior fiscal year, increased by the rate of inflation, as measured by the Consumer Price Index, for the 12 months prior to the start of the fiscal year; plus 30% of the long-term spending rate of 4.5 percent (a total of 1.35 percent) applied to the four-quarter market average of the endowment, for the period ending December 31 prior to the start of the fiscal year.

AUBG invests in high quality, investment grade securities and maintains a prudent diversification in its portfolios. AUBG’s endowment fund is invested according to the following Strategic Asset Allocation (SAA) as at June 30, 2012, approved by the Board of Trustees:

	Strategic Asset Allocation	of which	
		USD	Int'l
Cash & Money Market	15%	10%	5%
Fixed Income	20%	10%	10%
Equities	65%	45%	20%
		65%	35%

Any change to the SAA must be approved by the full Board. The Investment Committee is allowed to make tactical changes to the SAA and currency allocation without seeking full board approval as long as these changes remain within the range of +/- 10% of the SAA for each asset class.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	June 30, 2012 USD'000	June 30, 2011 USD'000
Land	3,023	2,706
Buildings	22,162	22,162
Less: accumulated depreciation	(3,617)	(3,066)
Buildings Net Book Value	18,545	19,096
Main building use allowance *	2,189	2,189
Less: accumulated amortization	(1,921)	(1,653)
Main Building Use Allowance Net Book Value	268	536
Office machines and equipment	2,638	2,503
Less: accumulated depreciation	(1,932)	(1,973)
Office Machines and Equipment Net Book Value	706	530
Motor vehicles	88	87
Less: accumulated depreciation	(75)	(61)
Motor Vehicles Net Book Value	13	26
Furniture and fixtures	1,872	1,902
Less: accumulated depreciation	(1,509)	(1,422)
Furniture and Fixtures Net Book Value	363	480
Library books	692	655
Less: accumulated depreciation	(562)	(519)
Library Books Net Book Value	130	136
Other intangible assets	831	723
Less: accumulated amortization	(444)	(339)
Other Intangible Assets Net Book Value	387	384
Assets under construction	8,801	767
Total Book Value	42,296	33,694
Less: Depreciation and Amortization	(10,060)	(9,033)
Total Net Book Value	32,236	24,661
	July 1, 2011 - June 30, 2012	July 1, 2010 - June 30, 2011
	USD'000	USD'000
Depreciation expenses:		
Property, Plant and Equipment	1,146	1,018
Intangible Assets	375	356
Total	1,521	1,374
Capitalized interest (Note 15):	145	10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS (continued)

* 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 fiscal year 2009, the Use Allowance is extended in the amount of USD 1,073 thousand with release of USD 268.2 thousand in each of fiscal years 2010 through 2013.

11. SHORT-TERM BORROWINGS

Short-term borrowings represent an overdraft with Raiffeisen Bank Bulgaria at the maximum amount of USD 2.2 million.

12. ACCOUNTS PAYABLE

	June 30, 2012	June 30, 2011
	USD'000	USD'000
OPIC loan interest payable	98	14
Tax liabilities	22	32
Payables to vendors and others	17	68
Payables to undergraduate students	12	8
Total	149	122

13. ACCRUED LIABILITIES AND CURRENT PORTION OF RETIREMENT BENEFITS

	June 30, 2012	June 30, 2011
	USD'000	USD'000
Accrued vacation	161	178
Current portion of retirement benefit provision (Note 16)	104	116
Accrued expenses	1	51
Total	266	345

14. DEFERRED REVENUE AND OTHER LIABILITIES

	June 30, 2012	June 30, 2011
	USD'000	USD'000
Deferred revenue from undergraduate students	472	478
Advance ELI payments	131	137
Advance payments for seminars	118	115
Deferred revenue from graduate students	23	31
Total	744	761

15. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2012	June 30, 2011
	USD'000	USD'000
Principal amount	9,300	3,000
Less unamortized cost	(92)	(50)
Long-term debt, net	9,208	2,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. LONG-TERM DEBT (continued)

Long-term debt represents a loan from the Overseas Private Investment Corporation (OPIC) amounting up to USD 10 million for the construction of AUBG Student Center. As of June 30, 2012, USD 9.3 million are utilized. As collateral, AUBG pledged 34,000 units in USAID Endowment Multi-Strategy Equity Fund, 33,000 units in USAID Endowment International Equity Fund, and 70,000 units in USAID Endowment High Quality Bond Fund at the total amount of USD 9,966 thousand as of June 30, 2012. The loan will be repaid in full within 15 years, including 3-year grace period.

The total amount of interest cost incurred during the year is USD 266 thousand (2011: USD 15 thousand) and the amount that has been capitalized is USD 145 thousand (2011: USD 10 thousand) (Note 10).

Below are presented the amounts payable for each of the following five years:

Year ended	Principle payable (USD '000)	Interests payable (USD '000)
June 30, 2013	-	459
June 30, 2014	833	447
June 30, 2015	833	408
June 30, 2016	833	369
June 30, 2017	833	330

16. RETIREMENT BENEFIT PROVISION

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

	June 30, 2012 USD'000	June 30, 2011 USD'000
Discount rate (interest rate for 10-year Government Bonds, source: Bulgarian National Bank)	3.83%	6.60%
Turnover rate	10%	10%

The Retirement Benefits are expected to be paid:

	June 30, 2012 USD'000	June 30, 2011 USD'000
Within 1 year (Note 13)	104	116
2 years	47	7
3 years	16	31
4 years	18	14
5 years	7	12
More than 5 years	70	58
Total:	262	238

The expense for retirement benefits recognized in the consolidated statement of activities for the year ended June, 30 2012 is USD 24 thousand (2011: USD 238 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. UNRESTRICTED NET ASSETS

	June 30, 2012	June 30, 2011
	USD'000	USD'000
Unrestricted net assets as of the beginning of the year	9,714	11,037
Reclassifications	158	7
Change in unrestricted assets	(316)	(1,330)
Unrestricted net assets as of the year end	<u>9,556</u>	<u>9,714</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. TEMPORARILY RESTRICTED NET ASSETS

	June 30, 2011 Balance USD'000	Contributions for the year USD'000	Scholarships USD'000	Satisfaction of program restrictions USD'000	Satisfaction of equipment acquisition USD'000	Program Income (Loss) USD'000	Reclassifications/ Revaluation USD'000	June 30, 2012 Balance USD'000
America for Bulgaria Foundation	9,423	9,388	(573)	-	-	9	-	18,247
USAID Endowment Fund	14,644	-	-	(570)	-	(575)	-	13,499
ASHA Grants	5,913	800	-	(196)	(307)	-	-	6,210
Balkanski Family	904	-	-	(25)	-	-	-	879
OSI Scholarships	1,881	100	(1,005)	(100)	-	-	-	876
Elvin Guri Scholarships	816	12	(38)	-	-	-	-	790
Main Building Use Allowance	536	-	-	(268)	-	-	-	268
OSI New Opportunity Scholarships	221	-	-	-	-	-	-	221
Phillippe Bertherat - Student Center gift	200	-	-	-	-	-	-	200
European Union	262	64	(49)	(132)	(2)	-	-	143
Dimi Panitza	138	3	(1)	(6)	-	-	-	134
AADF	-	125	-	-	-	-	-	125
Aristotle University of Thessaloniki	-	103	-	-	-	-	-	103
Nando Peretti Foundation Scholarships	135	(9)	(35)	-	-	-	-	91
OSI Turkmen Students Scholarships	78	10	(18)	-	-	-	-	70
Hellenic Fashion Industry Association	-	66	-	(2)	-	-	-	64
Marianne Keler	51	10	(7)	(7)	-	-	9	56
Other	695	740	(589)	(320)	(24)	15	(168)	349
Total	35,897	11,412	(2,315)	(1,626)	(333)	(551)	(159)	42,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**19. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 18, 2012, which is the date the consolidated financial statements were available to be issued and has concluded that there were no such events that require adjustment to the consolidated financial statements or disclosure to the notes to the accompanying consolidated financial statements.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2012*

Grant or agency/Program title	Grant number	Expenditure FY12 USD'000	Capitalized cost FY12 USD'000	Total FY12 USD'000
<i>USAID</i>				
Endowment fund for achieving long-term financial sustainability <i>ASHA/ USAID</i>	183-A-00-02-00102-00	570	-	570
Furnishing block A of Skaptopara III Residence Hall <i>ASHA/ USAID</i>	HSH-G-00-07-00005-00	7	6	13
Acquisition of commodities and technology US Department of State / Embassy of the United States of America - Sofia	AID-ASHA-G-10-00024 S-BU800-11-GR-084	16 25	301 -	317 25
Turkmen Assistance Scholarship Program	-	321	-	321
Total Expenditure of Federal Awards		939	307	1,246

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*For the year ended June 30, 2012**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 Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of American University in Bulgaria

We have audited the consolidated financial statements of American University in Bulgaria as of and for the year ended June 30, 2012, and have issued our report thereon dated September 18, 2012. Except as discussed in our report of independent auditors dated September 18, 2012, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

Management of American University in Bulgaria is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered American University in Bulgaria's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of American University in Bulgaria's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of American University in Bulgaria's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether American University in Bulgaria's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Ernst & Young
Ernst & Young Audit OOD

September 18, 2012



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Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

To the Board of Trustees of American University in Bulgaria

Compliance

We have audited American University in Bulgaria's compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of American University in Bulgaria's major federal programs for the year ended June 30, 2012. American University in Bulgaria'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 American University in Bulgaria's management. Our responsibility is to express an opinion on American University in Bulgaria's compliance based on our audit.

Except as discussed in the following paragraph we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about American University in Bulgaria'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 of American University in Bulgaria's compliance with those requirements.

We did not have an external quality control review by an unaffiliated audit organization as required by chapter 3, paragraphs 3.50 and 3.55 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Bulgaria. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the Ernst & Young Global Assurance Quality Review (AQR) program to evaluate the design and operating effectiveness of the country practice's quality control policies and procedures covering its assurance engagements. The objectives of the AQR program is to determine whether we (a) are conducting our assurance engagements in accordance with relevant professional standards and with the applicable policies, and (b) have established and documented adequate control policies and procedures and are complying with them. Furthermore, we are also subject to assurance quality reviews by the Commission for Public Oversight of Statutory Auditors in Bulgaria. In addition, we do not have a continuing education program that fully satisfies the requirement set forth in chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 80 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

Member of Ernst & Young Global

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BUL. REPUBLIC WITH EUROPEAN CTO Bulgaria AG.

In our opinion, American University in Bulgaria complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal control over compliance

The management of American University in Bulgaria is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered American University in Bulgaria's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American University in Bulgaria's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Ernst & Young
Ernst & Young Audit OOD

September 18, 2012

**American University in Bulgaria
Schedule of findings and questioned costs
for the year ended June 30, 2012**

Part I—Summary of auditor's results

Financial statements section

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal awards section

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

_____ yes X no

Identification of major programs:

<u>Grant number</u>	<u>Name of federal program or cluster</u>
183-A-00-02-00102-00	USAID/Endowment fund for achieving long-term financial sustainability
N/a	Turkmen Assistance Scholarship Program
AID-ASHA-G-10-00024	ASHA/USAID/Acquisition of commodities and technology

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes X no

Part II—Financial statement findings section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None reported.

Part III—Federal award findings and questioned costs section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None reported.

