

NEAR EAST FOUNDATION AND SUBSIDIARIES

**Consolidated Financial Statements and
Supplementary Information as of
June 30, 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

NEAR EAST FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

March 28, 2019

To the Board of Directors of
Near East Foundation and Subsidiaries:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Near East Foundation and Subsidiaries (a non-profit organization, the "Foundation"), which comprise the consolidated statement of financial position of as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the Near East Foundation UK Limited (NEF UK) and of the local operations in the Jordan, Sudan or West Bank, which statements reflect total assets of \$2,094,093, as of June 30, 2018 and total revenue and other support of \$7,849,754 and net assets of (\$8,259) for the year ended. We did not audit the financial statements of NEF UK and local operations in Jordan, Sudan and West Bank, which statements reflect total assets of \$2,671,654, as of June 30, 2017 and total revenue and other support of \$7,016,282 and net assets of (\$212,631) for the year ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NEF UK and of the local operations in Jordan, Sudan and West Bank, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Near East Foundation UK Limited was not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Totals

We have previously audited the Foundation's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* and the supplementary information included on pages 17 - 23 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 2018 consolidating information on pages 17 – 20 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the 2018 supplementary information, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Supplemental Information (Continued)

The 2017 supplementary information is presented for purposes of additional analysis 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 2017 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of those consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, 2017 supplementary information, which insofar as it relates to the Foundation, is based on the report of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the Foundation'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 solely 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 effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,328,470	\$ 2,641,258
Accounts receivable	163,626	1,434,511
Grants and contracts receivable	635,811	541,675
Prepaid expenses and other assets	79,121	52,796
Investments	5,658,476	5,480,311
Property and equipment, net	<u>270,573</u>	<u>139,497</u>
Total assets	<u>\$ 9,136,077</u>	<u>\$ 10,290,048</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,626,421	\$ 925,334
Deferred revenue	<u>1,340,730</u>	<u>3,260,000</u>
Total liabilities	<u>2,967,151</u>	<u>4,185,334</u>
NET ASSETS:		
Unrestricted	2,531,919	2,455,140
Temporarily restricted	25,218	37,785
Permanently restricted	<u>3,611,789</u>	<u>3,611,789</u>
Total net assets	<u>6,168,926</u>	<u>6,104,714</u>
Total liabilities and net assets	<u>\$ 9,136,077</u>	<u>\$ 10,290,048</u>

The accompanying notes are an integral part of these statements.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2018 (With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUE AND OTHER SUPPORT:					
Contributions	\$ 1,340,853	\$ 4,045	\$ -	\$ 1,344,898	\$ 857,068
Government grants and contracts	14,430,702	-	-	14,430,702	12,994,961
Private grants	111,710	-	-	111,710	226,171
In-kind contributions	-	-	-	-	201,260
Investment income, net	322,128	-	-	322,128	516,882
Other income	119,513	-	-	119,513	87,201
Net assets released from restrictions	<u>16,612</u>	<u>(16,612)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>16,341,518</u>	<u>(12,567)</u>	<u>-</u>	<u>16,328,951</u>	<u>14,883,543</u>
EXPENSES:					
Direct program services	13,195,733	-	-	13,195,733	12,017,738
Program administration	<u>2,034,342</u>	<u>-</u>	<u>-</u>	<u>2,034,342</u>	<u>1,903,655</u>
Total program services	15,230,075	-	-	15,230,075	13,921,393
Management and general	817,958	-	-	817,958	719,275
Fund-raising	<u>84,506</u>	<u>-</u>	<u>-</u>	<u>84,506</u>	<u>147,752</u>
Total expenses	<u>16,132,539</u>	<u>-</u>	<u>-</u>	<u>16,132,539</u>	<u>14,788,420</u>
CHANGE IN NET ASSETS BEFORE FOREIGN CURRENCY TRANSLATION ADJUSTMENT, NON-OPERATING INCOME, AND CHANGES RELATED TO ACQUISITION	208,979	(12,567)	-	196,412	95,123
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(340,705)	-	-	(340,705)	(87,083)
NON-OPERATING INCOME	208,505	-	-	208,505	317,774
EXCESS OF LIABILITIES ASSUMED OVER ASSETS ACQUIRED ON ACQUISITION	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(144,710)</u>
CHANGE IN NET ASSETS	76,779	(12,567)	-	64,212	181,104
NET ASSETS - beginning of year	<u>2,455,140</u>	<u>37,785</u>	<u>3,611,789</u>	<u>6,104,714</u>	<u>5,923,610</u>
NET ASSETS - end of year	<u>\$ 2,531,919</u>	<u>\$ 25,218</u>	<u>\$ 3,611,789</u>	<u>\$ 6,168,926</u>	<u>\$ 6,104,714</u>

The accompanying notes are an integral part of these statements.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018 (With Comparative Totals for 2017)

	Direct Program Services	Program Administration	Total Program Services	Management and General	Fund-raising	2018 Total	2017 Total
SALARIES AND RELATED EXPENSES:							
Salaries and wages	\$ 2,694,547	\$ 1,155,923	\$ 3,850,470	\$ 418,128	\$ 47,922	\$ 4,316,520	\$ 3,489,375
Fringe benefits	<u>692,623</u>	<u>234,569</u>	<u>927,192</u>	<u>121,895</u>	<u>14,274</u>	<u>1,063,361</u>	<u>789,480</u>
Total salaries and related expenses	3,387,170	1,390,492	4,777,662	540,023	62,196	5,379,881	4,278,855
EXPENSES:							
Professional fees/consultants	140,791	147,006	287,797	175,100	14,406	477,303	391,207
Occupancy and operating expenses	396,629	215,198	611,827	73,421	1,863	687,111	599,830
Travel	628,510	149,950	778,460	16,180	3,940	798,580	866,719
Equipment and furniture	86,134	39,472	125,606	7,721	-	133,327	113,855
Program activities	8,527,565	23,794	8,551,359	-	-	8,551,359	8,424,294
Miscellaneous expenses	<u>28,934</u>	<u>68,430</u>	<u>97,364</u>	<u>5,513</u>	<u>2,101</u>	<u>104,978</u>	<u>113,660</u>
	<u>\$ 13,195,733</u>	<u>\$ 2,034,342</u>	<u>\$ 15,230,075</u>	<u>\$ 817,958</u>	<u>\$ 84,506</u>	<u>\$ 16,132,539</u>	<u>\$ 14,788,420</u>

The accompanying notes are an integral part of these statements.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets before foreign currency translation adjustment and excess liabilities over assets acquired on acquisition	\$ 404,917	\$ 412,897
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	74,018	63,632
Excess liabilities over assets acquired on acquisition	-	(144,710)
Realized and unrealized gains on investments	(207,470)	(407,878)
Changes in:		
Accounts receivable	1,510,951	(816,834)
Grants and contracts receivable	(94,136)	349,393
Prepaid expenses and other assets	(26,325)	(10,011)
Accounts payable and accrued expenses	461,021	542,069
Deferred revenue	(1,919,270)	1,646,285
Net cash flow from operating activities	<u>203,706</u>	<u>1,634,843</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(205,094)	(82,908)
Proceeds on sales of investments	845,895	533,334
Purchase of investments	(816,590)	(1,351,079)
Net cash flow from investing activities	<u>(175,789)</u>	<u>(900,653)</u>
CHANGE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES	27,917	734,190
CASH AND CASH EQUIVALENTS - beginning of year	2,641,258	1,994,151
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(340,705)</u>	<u>(87,083)</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,328,470</u>	<u>\$ 2,641,258</u>

The accompanying notes are an integral part of these statements.

NEAR EAST FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

(With Comparative Totals for 2017)

1. NATURE OF ORGANIZATION

Near East Foundation ("NEF" or the "Foundation") is an international non-governmental organization, founded in 1915, that fosters and supports civil society organizations in select African and Middle Eastern communities experiencing inveterate poverty, as well as conflict, migration and/or climate change. NEF designs and manages projects that engage communities in simple but innovative and sustainable practices and technologies to meet their basic needs in agriculture, education, healthcare and income generation, giving them the confidence and competence to seek services from their governments and broader societies.

To implement its projects, the organization maintains offices and staff in Armenia, Jordan, Lebanon, Mali, Morocco, Palestinian Territories, Sudan, West Bank, London as well as New York. Its presence in these countries is registered with each of the respective national authorities, and NEF also has a license from the U.S. Treasury Department to work in Sudan. NEF has supported other former and current employees to set up similar entities in other countries, but has not used these entities.

NEF has been classified as a 501(c)(3) organization and is exempt from federal income taxes under the provisions of 501(a) of the Internal Revenue Code and a similar provision of the State of New York tax laws. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

The Near East Foundation UK Limited (NEF UK) was established in October 2012 and is a registered charity, number 1150993 and is a limited liability company. NEF UK was established with the purpose of building more sustainable, prosperous, and inclusive communities in the Middle East and Africa through education, community organizing, and economic development.

NEFdev, a for-profit Subsidiary of NEF, was established in March 2006 to take advantage of United States government small business grants that would not be available to the not-for-profit NEF organization. NEFdev has been inactive as of June 30, 2008, but is expected to pursue small business grants in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Near East Foundation, Near East Foundation UK Limited and NEFdev (collectively the "Foundation"). Significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Foundation reports its activities based on the existence or absence of donor-imposed restrictions utilizing the following net asset categories:

Unrestricted

Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the Foundation.

Temporarily Restricted

Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. As such restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Permanently Restricted

Net assets that are subject to donor-imposed stipulations requiring the corpus of the gift be retained in perpetuity. Generally, such donors allow the income from these resources to be used for general or specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments with original maturities at the time of purchase of three months or less, excluding cash held for investment purposes. The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Foundation maintains cash in bank deposit accounts denominated in foreign currency. Foreign currency denominated assets may involve more risk than domestic transactions, including political, economic and regulator risk. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of foreign currencies to the U.S. Dollar.

Accounts Receivable

Accounts receivable are stated at outstanding balances. The Foundation considers accounts receivable to be fully collectible based on management's review of individual accounts outstanding. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts Receivable

Grants and contracts receivable represent revenue earned but not received from the grantors. The Foundation considers all grants and contracts receivable to be fully collectible based on management's review of contributions outstanding. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

Investments

Investments are reported at fair value. Gains and losses on investments of temporarily or permanently restricted net assets are to be classified according to explicit donor-imposed stipulations. Absent donor-imposed stipulations, applicable state law is to be followed.

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated financial statements. Realized gains or losses result from the sale of investments and are allocated to the applicable funds. Unrealized gains or losses result from market value fluctuations and are also allocated to the applicable funds. Both are recorded in the statement of activities and changes in net assets in investment income.

Property and Equipment

Fixed assets are recorded at fair market value at the date of donation or at cost if purchased. The Foundation capitalizes fixed assets in excess of \$5,000 with a useful life greater than one year. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 5 years.

Deferred Revenue

Deferred revenue consists of grant revenue, which has been received but not expended.

Endowment Funds

Endowment funds represent funds that are not available for current use because they have been restricted by donors.

Interpretation of Relevant Law

The Foundation's Board of Directors has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income. The Foundation also observes the Uniform Management of Institutional Funds Act protection of the historic gift value of individual endowment funds.

Donated Services, Supplies, and Facilities

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation received donated services valued at \$162,893 for the year ended June 30, 2017. There were no donated services in 2018. The value of the donated services was included as in-kind contributions in the consolidated financial statements and the corresponding program expenses for the year ended June 30, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services, Supplies, and Facilities (Continued)

The Foundation received donated facilities that are reflected as contributions at their respective estimated fair rental values with a commensurate charge to expense. For the years ended June 30, 2017, donated space amounted to \$38,367. There were no donated facilities in 2018.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statements of activities and functional expenses. The costs are functionalized on a direct basis, where possible. Indirect costs are allocated on the basis of time spent.

Foreign Exchanges Gain or Loss

Monetary assets and liabilities denominated in foreign currencies are translated using rates prevailing at year-end. Revenues and expenses are translated at rates prevailing on the date of the respective transaction. Foreign exchange losses amounted to \$(340,705) and \$(87,083) for years ended June 30, 2018 and 2017, respectively and are included in the accompanying consolidated statement of activities and changes in net assets as components of program and/or management and general expenses, as appropriate.

Income Taxes

The Foundation is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified by the Internal Revenue Service as an entity which is not a private foundation. NEF UK is a registered company in England and Wales and is a registered charity that is exempt from corporation tax on its charitable activities.

3. ACQUISITION

On October 11, 2016 NEF UK's Board of Director's passed a resolution whereby the Foundation became the sole corporate member of NEF UK.

The Foundation acquired NEF UK to assist in building more sustainable, prosperous, and inclusive communities in the Middle East and Africa through education, community organizing, and economic development.

On the date of acquisition the fair value of assets received and liabilities assumed is as follows:

Total assets	\$	317,625
Total liabilities	\$	467,147

There was no consideration transferred on the date of acquisition and all net assets were unrestricted. NEF UK's total liabilities exceeded total assets and therefore the excess of liabilities assumed over assets acquired on acquisition of \$(144,710) was recognized on the consolidated statement of activities as of June 30, 2017.

4. FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value under accounting principles generally accepted in the United States of America, and applies to all financial instruments that are being measured and reported on a fair value basis. (ASC) 820 sets out a fair value hierarchy and 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 at the measurement date. The fair value hierarchy is defined as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations based on quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and market corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value.

Level 1 Fair Value Measurements

The fair value of the cash and cash equivalents, exchange traded funds, common stocks, and mutual funds are based on quoted prices in an open market.

Level 2 Fair Value Measurements

The fair value of corporate and treasury bonds are determined by entering standard inputs into a pricing model. These inputs, listed in order of priority, include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data and industry and economic events. The custodian of the bonds relies on an independent pricing service to perform the pricing calculation. The fair value of investment in trusts held by others are based on quoted market prices of the underlying investments.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

4. FAIR VALUE MEASUREMENTS (Continued)

There were no changes in valuation techniques used in 2018 or 2017.

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments at fair value on a recurring basis:

Assets at Fair Value as of June 30, 2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 46,858	\$ -	\$ -	\$ 46,858
Exchange traded funds	3,131,996	-	-	3,131,996
Common stocks	312,338	-	-	312,338
Corporate bonds	-	888,255	-	888,255
Mutual funds	<u>1,279,029</u>	<u>-</u>	<u>-</u>	<u>1,279,029</u>
Total	<u>\$ 4,770,221</u>	<u>\$ 888,255</u>	<u>\$ -</u>	<u>\$ 5,658,476</u>

Assets at Fair Value as of June 30, 2017				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 348,967	\$ -	\$ -	\$ 348,967
Exchange traded funds	3,699,769	-	-	3,699,769
Common stocks	178,698	-	-	178,698
Corporate bonds	-	1,031,633	-	1,031,633
Mutual funds	<u>221,244</u>	<u>-</u>	<u>-</u>	<u>221,244</u>
Total	<u>\$ 4,448,678</u>	<u>\$ 1,031,633</u>	<u>\$ -</u>	<u>\$ 5,480,311</u>

5. INVESTMENTS

Investment income consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 150,713	\$ 141,003
Realized gains on investments	103,742	267,638
Unrealized gains on investments	<u>103,728</u>	<u>140,240</u>
	<u>\$ 358,183</u>	<u>\$ 548,881</u>

Investment income above is shown on the consolidated statement of activities and changes in net assets at June 30, 2018 and 2017, net of investment fees of \$36,055 and \$31,999, respectively.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Vehicles	\$ 906,683	\$ 736,579
Office equipment	70,339	126,834
Leasehold improvements	41,317	41,317
Furniture and fixtures	<u>138,756</u>	<u>88,263</u>
	1,157,095	992,993
Less: Accumulated depreciation	<u>(886,522)</u>	<u>(853,496)</u>
	<u>\$ 270,573</u>	<u>\$ 139,497</u>

Depreciation expense is included in miscellaneous expenses on the consolidated statement of activities and changes in net assets at June 30, 2018 and 2017, in the amount of \$74,018 and \$63,632, respectively.

7. OPERATING LEASES

The Foundation has several operating leases that are renewable on an annual basis or office space which expire at various dates. Future minimum lease payments under the operating leases over one year as of June 30, 2018 are as follows:

2019	\$ 142,018
2020	87,134
2021	<u>13,200</u>
	<u>\$ 242,352</u>

Rental expense under operating leases was \$199,456 and \$88,275 for the year ended June 30, 2018 and 2017, respectively.

8. LINE OF CREDIT

In 2017, the Foundation entered into a line of credit agreement with a bank with the ability to draw up to \$707,000. Amounts borrowed under this agreement bear interest at Libor plus 3.50%. There was no outstanding balance as of June 30, 2018 or 2017. The line of credit is secured by the Foundation's investment accounts.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by purpose or periods for the following locations:

	<u>2018</u>	<u>2017</u>
Near East Relief Historical Society	\$ -	\$ 1,436
NEF - Lebanon	<u>25,218</u>	<u>36,349</u>
	<u>\$ 25,218</u>	<u>\$ 37,785</u>

The following represents assets released from restrictions for the following location:

	<u>2018</u>	<u>2017</u>
NEF - Lebanon	\$ 15,176	\$ 108,194
NEF - West Bank	-	20,961
NEF - Mali	-	20,854
NEF - Armenia	-	10,314
Near East Relief Historical Society	1,436	48,564
NEF - Jordan	<u>-</u>	<u>13,949</u>
	<u>\$ 16,612</u>	<u>\$ 222,836</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2018 and 2017 consist of investments to be held in perpetuity in funds as noted below for the purpose of generating income for the general purpose of the Foundation:

	<u>2018</u>	<u>2017</u>
Violet J. Jacobs Endowment Fund	\$ 3,500,000	\$ 3,500,000
Other	<u>111,789</u>	<u>111,789</u>
	<u>\$ 3,611,789</u>	<u>\$ 3,611,789</u>

The Foundation is subject to the New York Not-for-Profit Corporation Law. The Foundation has determined that when a contribution is received and the donor restricts the Foundation from spending the principal, New York Law requires the Foundation to treat the contribution received as an endowment. Such amount is recorded as permanently restricted and investment return is recorded as temporarily restricted until appropriated for spending.

The Foundation has adopted investment and spending policies for endowment assets that attempt to maintain a surplus for the Foundation to allow for possible distributions for operating expenses for unusual or unexpected repairs and improvements to its physical plants. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity.

10. PERMANENTLY RESTRICTED NET ASSETS (Continued)

On March 5, 2010, a donor signed an agreement with the Foundation to provide cash totaling \$3,000,000 to establish an endowment in perpetuity, the income from which will be used to support the operations of the Foundation. The terms of the agreement require the Foundation to actively pursue building its board, and to establish a spending rate of 7% measured on June 30 of each year if the value of the endowment is greater than its corpus and 5% if it falls below the corpus. During 2016, the Foundation received \$500,000 towards the endowment.

Endowment net assets are classified as follows for the years ended June 30:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2016	\$ 174,038	\$ 3,611,789	\$ 3,785,827
Contributions	86,583	-	86,583
Net assets released from restrictions	<u>(222,836)</u>	<u>-</u>	<u>(222,836)</u>
Change in endowment net assets	<u>(136,253)</u>	<u>-</u>	<u>(136,253)</u>
Balance, June 30, 2017	37,785	3,611,789	3,649,574
Contributions	4,045	-	4,045
Net assets released from restrictions	<u>(16,612)</u>	<u>-</u>	<u>(16,612)</u>
Change in endowment net assets	<u>(12,567)</u>	<u>-</u>	<u>(12,567)</u>
Balance, June 30, 2018	<u>\$ 25,218</u>	<u>\$ 3,611,789</u>	<u>\$ 3,637,007</u>

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or relevant law requires the Foundation to retain as a fund of perpetual donation. Deficiencies of this nature would be reported in temporarily restricted net assets to the extent accumulated gains are available to absorb such loss. Otherwise, such deficiencies are reported in unrestricted net assets. There were no such deficiencies at June 30, 2018 and 2017.

11. RETIREMENT PLAN

The Foundation has a Defined Contribution Plan (the Plan) for Employees covering its eligible employees. The Plan allows employee elective contributions and employer contributions for eligible employees.

Contributions to the Plan totaled \$139,842 and \$122,909 for the year ended June 30, 2018 and 2017, respectively.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 28, 2019 the date the consolidated financial statements were available to be issued.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals for 2017)

	Near East Foundation	Near East Foundation - UK	Eliminations	Consolidated	
				2018	2017
ASSETS					
Cash and cash equivalents	1,231,533	1,096,937	\$ -	\$ 2,328,470	\$ 2,641,258
Accounts receivable	307,527	-	(143,901)	163,626	1,434,511
Grants and contracts receivable	588,731	47,080	-	635,811	541,675
Prepaid expenses and other assets	77,709	1,412	-	79,121	52,796
Investments	5,658,476	-	-	5,658,476	5,480,311
Property and equipment, net	270,573	-	-	270,573	139,497
Total assets	<u>\$ 8,134,549</u>	<u>\$ 1,145,429</u>	<u>\$ (143,901)</u>	<u>\$ 9,136,077</u>	<u>\$ 10,290,048</u>
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	\$ 1,522,789	\$ 247,533	\$ (143,901)	\$ 1,626,421	\$ 925,334
Deferred revenue	485,416	855,314	-	1,340,730	3,260,000
Total liabilities	<u>2,008,205</u>	<u>1,102,847</u>	<u>(143,901)</u>	<u>2,967,151</u>	<u>4,185,334</u>
NET ASSETS:					
Unrestricted	2,489,337	42,582	-	2,531,919	2,455,140
Temporarily restricted	25,218	-	-	25,218	37,785
Permanently restricted	3,611,789	-	-	3,611,789	3,611,789
Total net assets	<u>6,126,344</u>	<u>42,582</u>	<u>-</u>	<u>6,168,926</u>	<u>6,104,714</u>
Total liabilities and net assets	<u>\$ 8,134,549</u>	<u>\$ 1,145,429</u>	<u>\$ (143,901)</u>	<u>\$ 9,136,077</u>	<u>\$ 10,290,048</u>

The accompanying notes are an integral part of these schedules.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2018 (With Comparative Totals for 2017)

	Near East Foundation				Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Near East Foundation - UK	Eliminations	2018	2017
REVENUE AND OTHER SUPPORT:								
Contributions	\$ 596,628	\$ 4,045	\$ -	\$ 600,673	\$ 744,225	\$ -	\$ 1,344,898	\$ 857,068
Government grants and contracts	12,767,425	-	-	12,767,425	1,772,013	(108,736)	14,430,702	12,994,961
Private grants	111,710	-	-	111,710	-	-	111,710	226,171
In-kind contributions	-	-	-	-	-	-	-	201,260
Investment income, net	322,128	-	-	322,128	-	-	322,128	516,882
Other income	119,381	-	-	119,381	132	-	119,513	87,201
Net assets released from restrictions	16,612	(16,612)	-	-	-	-	-	-
Total revenue and other support	13,933,884	(12,567)	-	13,921,317	2,516,370	(108,736)	16,328,951	14,883,543
EXPENSES:								
Direct program services	11,024,071	-	-	11,024,071	2,280,398	(108,736)	13,195,733	12,017,738
Program administration	1,970,643	-	-	1,970,643	63,699	-	2,034,342	1,903,655
Total program services	12,994,714	-	-	12,994,714	2,344,097	(108,736)	15,230,075	13,921,393
Management and general	638,493	-	-	638,493	179,465	-	817,958	719,275
Fund-raising	84,506	-	-	84,506	-	-	84,506	147,752
Total expenses	13,717,713	-	-	13,717,713	2,523,562	(108,736)	16,132,539	14,788,420
CHANGE IN NET ASSETS BEFORE FOREIGN CURRENCY TRANSLATION ADJUSTMENT, NON-OPERATING INCOME, AND CHANGES RELATED TO ACQUISITION								
	216,171	(12,567)	-	203,604	(7,192)	-	196,412	95,123
FOREIGN CURRENCY TRANSLATION ADJUSTMENT								
	(321,078)	-	-	(321,078)	(19,627)	-	(340,705)	(87,083)
NON-OPERATING INCOME								
	160,398	-	-	160,398	48,107	-	208,505	317,774
EXCESS OF LIABILITIES ASSUMED OVER ASSETS ACQUIRED ON ACQUISITION								
	-	-	-	-	-	-	-	(144,710)
CHANGE IN NET ASSETS	55,491	(12,567)	-	42,924	21,288	-	64,212	181,104
NET ASSETS - beginning of year	2,433,846	37,785	3,611,789	6,083,420	21,294	-	6,104,714	5,923,610
NET ASSETS - end of year	\$ 2,489,337	\$ 25,218	\$ 3,611,789	\$ 6,126,344	\$ 42,582	\$ -	\$ 6,168,926	\$ 6,104,714

The accompanying notes are an integral part of these schedules.

NEAR EAST FOUNDATION AND SUBSIDIARIES

**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

(With Comparative Totals for 2017)

	Near East Foundation						Near East Foundation - UK						Consolidated	
	Direct Program Services	Program Administration	Total Program Services	Management and General	Fund-raising	Total	Direct Program Services	Program Administration	Total Program Services	Management and General	Total	Eliminations	2018	2017
SALARIES AND RELATED EXPENSES:														
Salaries and wages	\$ 2,295,501	\$ 1,107,799	\$ 3,403,300	\$ 405,835	\$ 47,922	\$ 3,857,057	\$ 399,046	\$ 48,124	\$ 447,170	\$ 12,293	\$ 459,463	\$ -	\$ 4,316,520	\$ 3,489,375
Fringe benefits	591,725	225,206	816,931	119,274	14,274	950,479	100,898	9,363	110,261	2,621	112,882	-	1,063,361	789,480
Total salaries and related expenses	2,887,226	1,333,005	4,220,231	525,109	62,196	4,807,536	499,944	57,487	557,431	14,914	572,345	-	5,379,881	4,278,855
EXPENSES:														
Professional fees/consultants	203,243	143,941	347,184	53,370	14,406	414,960	46,284	3,065	49,349	121,730	171,079	(108,736)	477,303	391,207
Occupancy and operating expenses	341,099	214,319	555,418	32,065	1,863	589,346	55,530	879	56,409	41,356	97,765	-	687,111	599,830
Travel	503,914	147,702	651,616	14,848	3,940	670,404	124,596	2,248	126,844	1,332	128,176	-	798,580	866,719
Equipment and furniture	78,387	39,472	117,859	7,721	-	125,580	7,747	-	7,747	-	7,747	-	133,327	113,855
Program activities	6,982,031	23,794	7,005,825	-	-	7,005,825	1,545,534	-	1,545,534	-	1,545,534	-	8,551,359	8,424,294
Miscellaneous expenses	28,171	68,410	96,581	5,380	2,101	104,062	763	20	783	133	916	-	104,978	113,660
	<u>\$ 11,024,071</u>	<u>\$ 1,970,643</u>	<u>\$ 12,994,714</u>	<u>\$ 638,493</u>	<u>\$ 84,506</u>	<u>\$ 13,717,713</u>	<u>\$ 2,280,398</u>	<u>\$ 63,699</u>	<u>\$ 2,344,097</u>	<u>\$ 179,465</u>	<u>\$ 2,523,562</u>	<u>\$ (108,736)</u>	<u>\$ 16,132,539</u>	<u>\$ 14,788,420</u>

The accompanying notes are an integral part of these schedules.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018 (With Comparative Totals for 2017)

	Near East Foundation	Near East Foundation - UK	Consolidated	
			2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:				
Change in net assets before foreign currency translation adjustment and excess liabilities over assets acquired on acquisition	\$ 364,002	\$ 40,915	\$ 404,917	\$ 412,897
Adjustments to reconcile change in net assets to net cash flow from operating activities:				
Depreciation	74,018	-	74,018	63,632
Excess liabilities over assets acquired on acquisition	-	-	-	(144,710)
Realized and unrealized gains on investments	(207,470)	-	(207,470)	(407,878)
Changes in:				
Accounts receivable	1,215,203	295,748	1,510,951	(816,834)
Grants and contracts receivable	(234,660)	140,524	(94,136)	349,393
Prepaid expenses and other assets	(26,294)	(31)	(26,325)	(10,011)
Accounts payable and accrued expenses	418,891	42,130	461,021	542,069
Deferred revenue	(1,857,144)	(62,126)	(1,919,270)	1,646,285
Net cash flow from operating activities	<u>(253,454)</u>	<u>457,160</u>	<u>203,706</u>	<u>1,634,843</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(205,094)	-	(205,094)	(82,908)
Proceeds on sales of investments	845,895	-	845,895	533,334
Purchase of investments	(816,590)	-	(816,590)	(1,351,079)
Net cash flow from investing activities	<u>(175,789)</u>	<u>-</u>	<u>(175,789)</u>	<u>(900,653)</u>
CHANGE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES				
	(429,243)	457,160	27,917	734,190
CASH AND CASH EQUIVALENTS - beginning of year	1,981,854	659,404	2,641,258	1,994,151
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
	<u>(321,078)</u>	<u>(19,627)</u>	<u>(340,705)</u>	<u>(87,083)</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,231,533</u>	<u>\$ 1,096,937</u>	<u>\$ 2,328,470</u>	<u>\$ 2,641,258</u>

The accompanying notes are an integral part of these schedules.

NEAR EAST FOUNDATION AND SUBSIDIARIES

**SCHEDULE OF DIRECT PROGRAM SERVICES BY LOCATION
FOR THE YEAR ENDING JUNE 30, 2018
(With Comparative Totals for 2017)**

	Near East Foundation	Near East Foundation - UK	Consolidated	
			2018	2017
Armenia	\$ -	\$ 45,678	\$ 45,678	\$ 50,825
Jordan	1,494,230	103,142	1,597,372	2,185,244
Lebanon	2,795,777	11,852	2,807,629	751,954
Mali	3,266,819	1,110,046	4,376,865	6,017,706
Morocco	181,922	70,398	252,320	730,155
Sudan	1,861,054	713,152	2,574,206	1,620,509
Syria	618,589	10,163	628,752	-
New York	32,199	-	32,199	-
West Bank/Gaza	773,481	215,967	989,448	781,345
	<u>\$ 11,024,071</u>	<u>\$ 2,280,398</u>	<u>\$ 13,304,469</u>	<u>\$ 12,137,738</u>

The accompanying notes are an integral part of these schedules.

NEAR EAST FOUNDATION AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Award Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF STATE:			
MIDDLE EAST PARTNERSHIP INITIATIVE:			
Empowering Youth through Entrepreneurship in Morocco	19.500	S-NEAPI-14-CA-1002	\$ 55,599
Al-Rawabet Morocco: Connections for Youth Employment and Enterprise Growth	19.500	S-NEAAC-18-GR-0009	<u>32,455</u>
TOTAL MIDDLE EAST PARTNERSHIP INITIATIVE			<u>88,054</u>
OVERSEAS REFUGEE ASSISTANCE PROGRAM FOR NEAR EAST:			
Reducing Economic and Social Vulnerability of Syrian Refugees and Lebanese in Lebanon	19.519	S-PRMCO-18-CA-0016	1,895,332
Reducing Risk of Abuse Among Vulnerable Syrian, Iraqi and Jordanian Children in Jordan	19.519	S-PRMCO-17-CA-2089	1,378,214
Reducing Vulnerability to Negative Coping Strategies Among Refugees and Jordanians	19.519	S-PRMCO-16-CA-1271	458,278
Reducing Economic and Social Vulnerability of Syrian Refugees and Lebanese in Lebanon	19.519	S-PRMCO-16-CA-1251	<u>1,502,626</u>
TOTAL OVERSEAS REFUGEE ASSISTANCE PROGRAM FOR NEAR EAST			<u>5,234,450</u>
TOTAL DEPARTMENT OF STATE			<u>5,322,504</u>
USAID FOREIGN ASSISTANCE FOR PROGRAMS OVERSEAS:			
Olive Oil Without Borders II: Palestinian- Israeli Olive Oil Project	98.001	AID-294-A-14-00004	319,536
Olive Oil Without Borders II: Palestinian- Israeli Olive Oil Project	98.001	AID-294-A-16-00011	319,737
Humanitarian Support for IDPs and Vulnerable Populations in Water, Sanitation, and Hygiene in Jebel Marra and Um Dukhun in Central Dafur	98.001	AID-OFDA-G-16-00085	1,457,938
Humanitarian Support for IDPs and Vulnerable Populations in Water, Sanitation, and Hygiene in South Kordofan State	98.001	AID-OFDA-G-16-00224	714,254
Global Development Alliance (GDA) Cooperative Agreement	98.001	AID-294-A-17-00012	160,052
Exchange for Progress: Agronomists without Borders	98.001	AID-294-A-17-00008	150,014
Advancing Livelihoods Through Support to Youth Agricultural Markets in Dara's	98.001	AID-276-A-17-00002	763,524
Emergency Food Security Program in Mali	98.001	AID-FFP-G-15-000055	<u>83,039</u>
TOTAL USAID FOREIGN ASSISTANCE FOR PROGRAMS OVERSEAS			<u>3,968,094</u>
			<u>\$ 9,290,598</u>

See notes to Schedule of Expenditures of Federal Awards.

NEAR EAST FOUNDATION AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. EXPENDITURES OF FEDERAL AWARDS

The amounts reported as expenditures of federal awards were obtained from the accounting records utilized to record activity for the applicable program and periods. These accounting records are periodically reconciled to the appropriate federal financial reports for each program.

3. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent they are included in the federal financial reports for each program. The Foundation charges indirect costs to its contracts using the current provisional rate effective from July 1, 2017 through June 30, 2018. The Foudation have not elected to 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. MATCHING COSTS

Matching costs, i.e., the Foundation's share of certain program costs, are not included in the reported expenditures.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 28, 2019

To the Board of Directors of
Near East Foundation and Subsidiaries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Near East Foundation and Subsidiaries (the Foundation) which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 28, 2019. Our report includes a reference to other auditors who audited the financial statements of Near East Foundation UK Limited and of the local operations in Jordan, Sudan and West Bank, as described in our report on Near East Foundation and Subsidiaries's consolidated financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Near East Foundation UK Limited was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

March 28, 2019

To the Board of Directors of
Near East Foundation and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited Near East Foundation and Subsidiaries's (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2018. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Foundation'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

(Continued)

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(Continued)

Opinion on Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

NEAR EAST FOUNDATION AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	yes	_____ <input checked="" type="checkbox"/>	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____ <input checked="" type="checkbox"/>	none reported
Noncompliance material to financial statements noted?	_____	yes	_____ <input checked="" type="checkbox"/>	no

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified?	_____	yes	_____ <input checked="" type="checkbox"/>	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____ <input checked="" type="checkbox"/>	none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516(a)?

_____ yes _____ no

The programs tested as major programs include:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
19.519	Department of State: Overseas Refugee Assistance Program for Near East

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes _____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

NEAR EAST FOUNDATION AND SUBSIDIARIES

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION IV - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS

None noted.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.