# NEAR EAST FOUNDATION AND SUBSIDIARY

**Consolidated Financial Statements and**
**Supplementary Information as of**
**June 30, 2012**
**Together with**
**Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

## NEAR EAST FOUNDATION AND SUBSIDIARY

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Bonadio & Co., LLP
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

March 27, 2013

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

We have audited the accompanying consolidated statement of financial position of Near East Foundation and Subsidiary (the "Foundation") as of June 30, 2012, and the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Near East Foundation and Subsidiary as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our reports dated March 27, 2013 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 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.

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**INDEPENDENT AUDITOR'S REPORT**
(Continued)

Our audit was conducted 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 *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the consolidated financial statements. In addition, the accompanying schedule of direct program services by location for the year ended June 30, 2012 is presented for purpose of additional analysis and is also 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Bonadio & Co., LLP

## NEAR EAST FOUNDATION AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### JUNE 30, 2012

| | | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 637,463 |
| Accounts and loans receivable | | 214,310 |
| Grants and contracts receivable | | 464,651 |
| Prepaid expenses | | 7,745 |
| Investments, at fair value | | 2,703,005 |
| Security deposits | | 8,000 |
| Investment in trusts held by others | | 49,750 |
| Property and equipment, net | | 25,276 |
| Total assets | $ | 4,110,200 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES: | | |
| Line of credit | $ | 82,222 |
| Accounts payable and accrued expenses | | 453,880 |
| Deferred revenue | | 457,778 |
| Total liabilities | | 993,880 |
| NET ASSETS: | | |
| Unrestricted | | (219,796) |
| Temporarily restricted | | 161,913 |
| Permanently restricted | | 3,174,203 |
| Total net assets | | 3,116,320 |
| Total liabilities and net assets | $ | 4,110,200 |

The accompanying notes are an integral part of these statements.

## NEAR EAST FOUNDATION AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
### FOR THE YEAR ENDED JUNE 30, 2012

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND OTHER SUPPORT: | | | | |
| Contributions | $ 261,529 | $ 8,000 | $ - | $ 269,529 |
| Government grants and contracts | 888,627 | - | - | 888,627 |
| Private grants | 1,985,361 | - | - | 1,985,361 |
| In-kind contributions | 95,128 | - | - | 95,128 |
| Investment income | 4,483 | 2,019 | - | 6,502 |
| Program related income | 73,665 | - | - | 73,655 |
| Other income | 14,005 | - | - | 14,005 |
| Net assets released from restrictions | 50,736 | (50,736) | - | - |
| Total revenue and other support | 3,373,534 | (40,717) | - | 3,332,807 |
| EXPENSES: | | | | |
| Direct program services | 2,851,549 | - | - | 2,851,549 |
| Program administration | 573,753 | - | - | 573,753 |
| Total program services | 3,425,302 | | | 3,425,302 |
| Management and general | 245,424 | - | - | 245,424 |
| Fund-raising | 97,293 | - | - | 97,293 |
| Total expenses | 3,768,019 | - | - | 3,768,019 |
| CHANGE IN NET ASSETS | (394,485) | (40,717) | - | (435,202) |
| NET ASSETS - as previously reported | 174,689 | 859,193 | 3,174,203 | 4,208,085 |
| PRIOR PERIOD ADJUSTMENT | - | (656,563) | - | (656,563) |
| NET ASSETS - beginning of year - as restated | 174,689 | 202,630 | 3,174,203 | 3,551,522 |
| NET ASSETS - end of year | $ (219,796) | $ 161,913 | $ 3,174,203 | $ 3,116,320 |

The accompanying notes are an integral part of these statements.

## NEAR EAST FOUNDATION AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED JUNE 30, 2012

| | Direct Program Services | Program Administration | Total Program Services | Management and General | Fund-Raising | Total |
|---|---|---|---|---|---|---|
| SALARIES AND RELATED EXPENSES: | | | | | | |
| Salaries and wages | $ 594,445 | $ 212,465 | $ 806,910 | $ 76,536 | $ 31,610 | $ 915,056 |
| Fringe benefits | 103,410 | 68,983 | 172,393 | 29,120 | 7,996 | 209,509 |
| Total salaries and related expenses | 697,855 | 281,448 | 979,303 | 105,656 | 39,606 | 1,124,565 |
| EXPENSES: | | | | | | |
| Agricultural expenses | 20,075 | - | 20,075 | - | - | 20,075 |
| Bad debt | - | 700 | 700 | - | - | 700 |
| Construction & project costs | 14,483 | - | 14,483 | - | - | 14,483 |
| Depreciation | - | 26,321 | 26,321 | - | - | 26,321 |
| Equipment | 169,787 | 4,376 | 174,163 | 1,608 | 109 | 175,880 |
| Foreign exchange loss | 6 | 44,456 | 44,462 | - | - | 44,462 |
| Grants | 55,428 | - | 55,428 | - | - | 55,428 |
| Miscellaneous | 18,360 | (6,780) | 11,580 | 3,473 | 577 | 15,630 |
| Occupancy (including in-kind of $9,135) | 49,618 | 25,575 | 75,193 | 8,559 | 2,637 | 86,389 |
| Office supplies and expenses | 10,697 | 2,366 | 13,063 | 1,530 | 2,451 | 17,044 |
| Postage and shipping | 228 | 739 | 967 | 382 | 1,927 | 3,276 |
| Printing and publication | 8,288 | 1,357 | 9,645 | 361 | 168 | 10,174 |
| Professional fees & outside services (including in-kind of $54,915) | 360,880 | 144,063 | 504,943 | 91,835 | 47,608 | 644,386 |
| Program development | 9,468 | - | 9,468 | - | - | 9,468 |
| Telephone and internet | 19,495 | 6,455 | 25,950 | 3,474 | 1,379 | 30,803 |
| Training and technical support | 1,357,054 | - | 1,357,054 | - | - | 1,357,054 |
| Travel | 59,827 | 42,677 | 102,504 | 28,546 | 831 | 131,881 |
| | $ 2,851,549 | $ 573,753 | $ 3,425,302 | $ 245,424 | $ 97,293 | $ 3,768,019 |

The accompanying notes are an integral part of these statements.

## NEAR EAST FOUNDATION AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED JUNE 30, 2012

| | 2012 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net change in net assets | $ (435,203) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation | 26,321 |
| Bad debt | 700 |
| Change in fair value of investments | (142) |
| Change in value of investments in trusts held by others | 6,644 |
| Changes in: | |
| Accounts and loans receivable | (106,107) |
| Grants and contracts receivable | (304,576) |
| Prepaid expenses | 8,881 |
| Accounts payable and accrued expenses | (95,707) |
| Deferred revenue | 279,976 |
| Net cash flow from operating activities | (619,213) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of fixed assets | (503) |
| Proceeds on sales of investments | 2,437,985 |
| Purchase of investments | (2,199,602) |
| Net cash flow from investing activities | 237,880 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Proceeds from line of credit | 82,222 |
| Net cash flow from financing activities | 82,222 |
| CHANGE IN CASH AND CASH EQUIVALENTS | (299,111) |
| CASH AND CASH EQUIVALENTS - beginning of year | 936,574 |
| CASH AND CASH EQUIVALENTS - end of year | $ 637,463 |

The accompanying notes are an integral part of these statements.

## 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 Egypt, Jordan, Mali, Morocco, Palestine and Sudan, 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. With respect to Egypt, NEF has a memorandum of understanding with the Center for Development Services ("CDS") to provide NEF with staff for representation purposes, as well as other memoranda of understanding to provide staff and services for specific NEF projects in Egypt. CDS is an Egyptian company that belongs to former NEF employees who set up CDS with support from NEF. 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.

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

**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.

**Principles of Consolidation**
The financial statements include the accounts of Near East Foundation and its Subsidiary (collectively the “Foundation”). In accordance with generally accepted accounting principles, all significant inter-company transactions and balances have been eliminated.

**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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Accounts and Loans Receivables

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.

Loans receivable consist primarily of amounts loaned to individuals and businesses to support agricultural production and food security. Loans are stated at unpaid principal balances plus interest, less the allowance for loan losses. Loans are due in July 2012.

### Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on past collection experience and an analysis of outstanding amounts. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged to the provision for loan losses. Management did not consider an allowance for loan losses necessary as of June 30, 2012.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary because of uncertainties associated with local economic conditions and future cash flows on impaired loans.

## 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.

**Investment in Trusts Held By Others**
The Foundation is a beneficiary of two trusts. The Foundation's beneficial interest is measured at the discounted value of its expected future cash flows and is reported as temporarily restricted net assets. At the end of the trusts, the remaining assets will become available for the Foundation's use.

In addition, a donor established a funded trust under which specified distributions are to be made to a designated beneficiary over the trust's term. Upon the death of the beneficiary, the Foundation will receive a portion of the assets remaining in trust. Charitable remainder trusts are recorded as increases in temporarily restricted net assets at the fair value of the trust assets, less the present value of the estimated future payments to be made to the beneficiary.

**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 $500 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 5 to 10 years.

**Endowment Funds**
Endowment funds represent funds that are not available for current use because they have been so restricted by donors, or designated by the Foundation's board of directors.

**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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 $54,915 for the year ended June 30, 2012. 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, 2012.

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 year ended June 30, 2012, donated space amounted to $9,135.

**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 gains or losses are included in the accompanying 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.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of June 30, 2012, the Foundation does not have a liability for unrecognized tax benefits. The Foundation files income tax returns in the U.S. federal jurisdiction and New York State. The Foundation is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2009.

## 3. 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.

## 3. FAIR VALUE MEASUREMENTS (Continued)

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 bank savings account and money market funds are based on an open market. The fair values of U.S. government securities and investment in trusts held by others are valued at the closing price reported on an active market on which the individual securities are traded.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2 and 3 during the year.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value.

| | Assets at Fair Value as of June 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | $ 33,685 | $ - | $ - | $ 33,685 |
| Bank savings account | 469,782 | - | - | 469,782 |
| Investment in trusts held by others | 49,750 | - | - | 49,750 |
| U.S. Government securities | 2,199,538 | - | - | 2,199,538 |
| | $ 2,752,755 | $ - | $ - | $ 2,752,755 |

## 4. INVESTMENTS

Investments consist of the following at June 30:

| | 2012 Cost | 2012 Fair Value |
|---|---|---|
| Money market funds | $ 33,685 | $ 33,685 |
| Bank savings account | 469,782 | 469,782 |
| U.S. Government securities | 2,199,602 | 2,199,538 |
| | $ 2,703,069 | $ 2,703,005 |

Investment income consists of the following at June 30:

| | 2012 |
|---|---|
| Interest and dividend income | $ 1,354 |
| Unrealized gains on investments | 5,148 |
| | $ 6,502 |

## 5. PROPERTY AND EQUIPMENT, NET

At June 30, 2012, property and equipment, net, consist of the following:

| | 2012 |
|---|---|
| Vehicles | $ 463,297 |
| Office equipment | 120,399 |
| Furniture and fixtures | 7,705 |
| | 591,401 |
| Less: accumulated depreciation | (566,125) |
| | $ 25,276 |

## 6. LINE OF CREDIT

In 2012, the Foundation obtained a $100,000 line-of-credit agreement with a bank. Interest on the line-of-credit is at prime plus .75% (4% as of June 30, 2012) and it is secured by all assets of the Foundation. As of June 30, 2012, $82,222 was borrowed against the line.

## 7. OPERATING LEASES

The Foundation has several operating leases that are renewable on an annual basis or office space which expire at various dates through July 2013. Future minimum lease payments under the operating leases over one year as of June 30, 2012 are as follows:

| | |
|---|---|
| 2013 | $ 46,736 |
| 2014 | 12,622 |
| | $ 59,358 |

Rental expense under operating leases was $86,389 for the year ended June 30, 2012.

## 8. TEMPORARILY RESTRICTED NET ASSETS

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

| | 2012 |
|---|---|
| NEF – Mali | $ 97,345 |
| NEF – NY and Morocco | 64,249 |
| | $ 162,274 |

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

| | 2012 |
|---|---|
| NEF – NY and Morocco | (50,376) |
| | $ (50,376) |

## 9. PERMANENTLY RESTRICTED NET ASSETS

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

| | 2012 |
|---|---|
| Francis K. Ross Charitable Trust | $ 62,414 |
| Violet J. Jacobs Endowment Fund | 3,000,000 |
| Other | 111,789 |
| | $ 3,174,203 |

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 of 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.

## 9. PERMANENTLY RESTRICTED NET ASSETS (Continued)

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. Under this policy, as approved by the board of directors, the overriding objective is to maintain purchasing power.

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.

Endowment net assets are classified as follows for the years ended June 30, 2012:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Balance, July 1, 2011 | $ 202,631 | $ 3,174,203 | $ 3,376,834 |
| Investment returns: | | | |
| Investment income | 2,019 | - | 2,019 |
| Contributions | 8,000 | - | 8,000 |
| Appropriated for expenditures | (226) | - | (226) |
| Approved transfer | (50,150) | - | (50,150) |
| Change in endowment net assets | (40,357) | - | (40,357) |
| Balance, June 30, 2012 | $ 162,274 | $ 3,174,203 | $ 3,336,477 |

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. Deficiencies of this nature that are reported in unrestricted net assets were $633,472 at June 30, 2012. This deficiency resulted from unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for purposes specified by the donor or activities that were deemed prudent by the Foundation. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as increases in unrestricted net assets.

## 10. PRIOR PERIOD ADJUSTMENT

The 2012 consolidated financial statements have been restated to correct an error in reporting. Management determined that accounts receivable and temporarily restricted revenue was overstated by $656,563 as of June 30, 2011, due to the recording of contribution receivable and revenue prior to amounts being earned. Accordingly, an adjustment was made to the statement of activities and changes in net assets to decrease net assets – beginning of year by $656,563.

## 11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 27, 2013 the date the consolidated financial statements were available to be issued.

## NEAR EAST FOUNDATION AND SUBSIDIARY

### SCHEDULE OF DIRECT PROGRAM SERVICES BY LOCATION
### FOR THE YEAR ENDING JUNE 30, 2012

| | 2012 |
|---|---|
| Egypt | $ 517,224 |
| Jordan | 52,309 |
| Mali | 297,508 |
| Morocco | 492,755 |
| Sudan | 1,326,809 |
| Armenia | 3,840 |
| West Bank/Gaza | 161,105 |
| | $ 2,851,550 |

The accompanying notes are an integral part of these statements.

## NEAR EAST FOUNDATION AND SUBSIDIARY

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### JUNE 30, 2012

| Federal Grantor/Program Title | CFDA Number | Award Number | Federal |
|---|---|---|---|
| U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT DIRECT PROGRAMS: | | | |
| Olive Oil Without Borders: Palestinian-Israeli Olive Oil Project | 98.001 | AID-294-A-11-00010 | $ 132,322 |
| Agricultural Water Management Project - Morocco | 98.001 | 608-A-00-11-00004 | 237,970 |
| Enhancing Resilience to Climate Change - Mali | 98.001 | 688-A-00-09-00088-00 | 147,749 |
| PASSED THROUGH RTI INTERNATIONAL: | | | |
| Local Governance Program 2 - Morocco | 98.001 | EPP-I-00-04-00037-00 | 291,852 |
| Total U.S. Agency for International Development Direct Programs | | | $ 809,893 |

See note to shcedule of expenditures of Fedeal Awards.

## 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

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Certified Public Accountants

**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 27, 2013

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

We have audited the consolidated financial statements of Near East Foundation and Subsidiary (the "Foundation") as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013. 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.

**Internal Control Over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation'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 the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 over financial reporting 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 previously.

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**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)

**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the Foundation'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 consolidated 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 the audit committee, management, Board of Directors, 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.

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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**

March 27, 2013

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

**Compliance**

We have audited Near East Foundation and Subsidiary (the "Foundation") compliance with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended June 30, 2012. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

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 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 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. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation 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.

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**INDEPENDENT AUDITORS' 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**
(Continued)

**Internal Control Over Compliance**
Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with 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 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 a 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 over compliance 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Foundation's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Foundation's compliance but not to provide an opinion on the effectiveness of the Foundation's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Foundation's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Bonadio & Co., LLP

## NEAR EAST FOUNDATION AND SUBSIDIARY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS
### JUNE 30, 2012

### SECTION I - SUMMARY OF AUDITOR'S RESULTS

**Consolidated Financial Statements**

Type of Independent Auditors' report issued: Unqualified

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| Material weaknesses identified? | ____ | yes | √ | no |
| Significant deficiencies identified that are not considered to be material weaknesses? | ____ | yes | √ | none reported |
| Noncompliance material to consolidated financial statements noted? | ____ | yes | √ | no |

**Federal Awards**

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| Material weaknesses identified? | ____ | yes | √ | no |
| Significant deficiencies identified that are not considered to be material weaknesses? | ____ | yes | √ | none reported |

Type of Independent 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 Circular A-133? | ____ | yes | √ | no |

Identification of major programs:

| CFDA Numbers | Name of Federal Program |
|---|---|
| | U.S. Agency for International Development: |
| 98.001 | Foreign Assistance for Programs Overseas |

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | √ | yes | ____ | no |

# NEAR EAST FOUNDATION AND SUBSIDIARY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## JUNE 30, 2012

### SECTION II – CONSOLIDATED FINANCIAL STATEMENT FINDINGS

**Current-Year Findings**

None reported

**Prior-Year Findings**

None reported

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported