

NEAR EAST FOUNDATION AND SUBSIDIARIES

**Consolidated Financial Statements and
Supplementary Information as of
June 30, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

NEAR EAST FOUNDATION AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS:	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 16
SUPPLEMENTARY INFORMATION:	
Consolidating Statement of Financial Position	17
Consolidating Statement of Activities and Changes in Net Assets	18
Consolidating Statement of Functional Expenses	19
Consolidating Statement of Cash Flows	20
Schedule of Direct Program Services by Location	21
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
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 <i>GOVERNMENT AUDITING STANDARDS</i>	24 - 25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	26 - 27
Schedule of Findings and Questioned Costs	28
Schedule of Status of Prior Audit Findings, Questioned Costs, and Recommendations	29

INDEPENDENT AUDITOR'S REPORT

March 29, 2018

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

Report on the 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, 2017, 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 \$2,671,654, as of June 30, 2017 and total revenue and other support of \$7,016,282, for the year ended. We did not audit the financial statements of local operations in Jordan, Sudan or West Bank, which statements reflect total assets of \$678,702, as of June 30, 2016 and total revenue and other support of \$3,261,650, 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. 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.

432 North Franklin Street, Suite 60
Syracuse, New York 13204
p (315) 476-4004
f (315) 475-1513

www.bonadio.com

(Continued)

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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited 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 2017 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 - 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 2017 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. In our opinion, the 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Supplemental Information (Continued)

The 2016 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 2016 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. In our opinion, the 2016 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 29, 2018 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, 2017

(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,641,258	\$ 1,994,151
Accounts receivable	1,434,511	1,001,644
Grants and contracts receivable	541,675	891,068
Prepaid expenses and other assets	52,796	42,785
Investments	5,480,311	4,254,688
Property and equipment, net	<u>139,497</u>	<u>120,221</u>
Total assets	<u>\$ 10,290,048</u>	<u>\$ 8,304,557</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 925,334	\$ 767,232
Deferred revenue	<u>3,260,000</u>	<u>1,613,715</u>
Total liabilities	<u>4,185,334</u>	<u>2,380,947</u>
NET ASSETS:		
Unrestricted	2,455,140	2,137,783
Temporarily restricted	37,785	174,038
Permanently restricted	<u>3,611,789</u>	<u>3,611,789</u>
Total net assets	<u>6,104,714</u>	<u>5,923,610</u>
Total liabilities and net assets	<u>\$ 10,290,048</u>	<u>\$ 8,304,557</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, 2017 (With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
REVENUE AND OTHER SUPPORT:					
Contributions	\$ 770,485	\$ 86,583	\$ -	\$ 857,068	\$ 2,317,051
Government grants and contracts	12,994,961	-	-	12,994,961	7,750,043
Private grants	226,171	-	-	226,171	711,080
In-kind contributions	201,260	-	-	201,260	385,409
Investment income, net	516,882	-	-	516,882	31,544
Other income	87,201	-	-	87,201	3,878
Net assets released from restrictions	<u>222,836</u>	<u>(222,836)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>15,019,796</u>	<u>(136,253)</u>	<u>-</u>	<u>14,883,543</u>	<u>11,199,005</u>
EXPENSES:					
Direct program services	12,017,738	-	-	12,017,738	7,797,676
Program administration	<u>1,903,655</u>	<u>-</u>	<u>-</u>	<u>1,903,655</u>	<u>1,324,182</u>
Total program services	13,921,393	-	-	13,921,393	9,121,858
Management and general	719,275	-	-	719,275	512,425
Fund-raising	<u>147,752</u>	<u>-</u>	<u>-</u>	<u>147,752</u>	<u>505,092</u>
Total expenses	<u>14,788,420</u>	<u>-</u>	<u>-</u>	<u>14,788,420</u>	<u>10,139,375</u>
CHANGE IN NET ASSETS BEFORE FOREIGN CURRENCY TRANSLATION ADJUSTMENT, NON-OPERATING INCOME, AND CHANGES RELATED TO ACQUISITION	231,376	(136,253)	-	95,123	1,059,630
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(87,083)	-	-	(87,083)	(24,338)
NON-OPERATING INCOME	317,774	-	-	317,774	-
EXCESS OF LIABILITIES ASSUMED OVER ASSETS ACQUIRED ON ACQUISITION	<u>(144,710)</u>	<u>-</u>	<u>-</u>	<u>(144,710)</u>	<u>-</u>
CHANGE IN NET ASSETS	317,357	(136,253)	-	181,104	1,035,292
NET ASSETS - beginning of year	<u>2,137,783</u>	<u>174,038</u>	<u>3,611,789</u>	<u>5,923,610</u>	<u>4,888,318</u>
NET ASSETS - end 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>

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, 2017

(With Comparative Totals for 2016)

	Direct Program Services	Program Administration	Total Program Services	Management and General	Fund-raising	2017 Total	2016 Total
SALARIES AND RELATED EXPENSES:							
Salaries and wages	\$ 2,059,396	\$ 1,095,311	\$ 3,154,707	\$ 301,414	\$ 33,254	\$ 3,489,375	\$ 2,451,632
Fringe benefits	<u>431,924</u>	<u>280,763</u>	<u>712,687</u>	<u>69,376</u>	<u>7,417</u>	<u>789,480</u>	<u>549,711</u>
Total salaries and related expenses	2,491,320	1,376,074	3,867,394	370,790	40,671	4,278,855	3,001,343
EXPENSES:							
Professional fees/consultants	131,667	93,689	225,356	81,988	83,863	391,207	673,600
Occupancy and operating expenses	319,513	132,395	451,908	138,155	9,767	599,830	388,175
Travel	626,339	129,596	755,935	104,366	6,418	866,719	664,692
Equipment and furniture	71,701	23,388	95,089	14,161	4,605	113,855	54,812
Program activities	8,293,696	130,598	8,424,294	-	-	8,424,294	5,205,681
Miscellaneous expenses	<u>83,502</u>	<u>17,915</u>	<u>101,417</u>	<u>9,815</u>	<u>2,428</u>	<u>113,660</u>	<u>151,072</u>
	<u>\$ 12,017,738</u>	<u>\$ 1,903,655</u>	<u>\$ 13,921,393</u>	<u>\$ 719,275</u>	<u>\$ 147,752</u>	<u>\$ 14,788,420</u>	<u>\$ 10,139,375</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, 2017

(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets before foreign currency translation adjustment and excess liabilities over assets acquired on acquisition	\$ 412,897	\$ 1,059,630
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	63,632	68,064
Excess liabilities over assets acquired on acquisition	(144,710)	-
Net contributions restricted for endowment	-	(500,000)
Realized and unrealized (gains) losses on investments	(407,878)	73,416
Changes in:		
Accounts receivable	(816,834)	(588,738)
Grants and contracts receivable	349,393	(810,134)
Prepaid expenses	(10,011)	31,244
Accounts payable and accrued expenses	542,069	196,191
Deferred revenue	<u>1,646,285</u>	<u>1,039,780</u>
Net cash flow from operating activities	<u>1,634,843</u>	<u>569,453</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(82,908)	(16,116)
Proceeds on sales of investments	533,334	3,497,984
Purchase of investments	<u>(1,351,079)</u>	<u>(4,119,868)</u>
Net cash flow from investing activities	<u>(900,653)</u>	<u>(638,000)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in endowment	<u>-</u>	<u>500,000</u>
Net cash flow from financing activities	<u>-</u>	<u>500,000</u>
CHANGE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES	734,190	431,453
CASH AND CASH EQUIVALENTS - beginning of year	1,994,151	1,587,036
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(87,083)</u>	<u>(24,338)</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,641,258</u>	<u>\$ 1,994,151</u>

The accompanying notes are an integral part of these statements.

NEAR EAST FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

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, Egypt, Jordan, Lebanon, Mali, Morocco, Palestinian Territories, 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. 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 and \$339,369 for the years ended June 30, 2017 and 2016, respectively. The value of the donated services was included as in-kind contributions in the consolidated financial statements and the corresponding program expenses for the years ended June 30, 2017 and 2016, respectively.

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 and 2016, donated space amounted to \$38,367 and \$46,040, respectively.

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 \$(87,083) and \$(24,338) for years ended June 30, 2017 and 2016, 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.

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.

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 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, 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>

Assets at Fair Value as of June 30, 2016				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 131,394	\$ -	\$ -	\$ 131,394
Exchange traded funds	2,852,447	-	-	2,852,447
Common stocks	168,736	-	-	168,736
Corporate bonds	-	925,414	-	925,414
Mutual funds	<u>176,697</u>	<u>-</u>	<u>-</u>	<u>176,697</u>
Total	<u>\$ 3,329,274</u>	<u>\$ 925,414</u>	<u>\$ -</u>	<u>\$ 4,254,688</u>

5. INVESTMENTS

Investment income consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 141,003	\$ 128,748
Realized gains on investments	267,638	11,174
Unrealized gains/(losses) on investments	<u>140,240</u>	<u>(84,590)</u>
	<u>\$ 548,881</u>	<u>\$ 55,322</u>

Investment income above is shown on the consolidated statement of activities and changes in net assets at June 30, 2017 and 2016, net of investment fees of \$31,999 and \$23,778, respectively.

6. PROPERTY AND EQUIPMENT, NET

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

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 736,579	\$ 736,579
Office equipment	126,834	106,431
Leasehold improvements	41,317	-
Furniture and fixtures	<u>88,263</u>	<u>67,075</u>
	992,993	910,085
Less: Accumulated depreciation	<u>(853,496)</u>	<u>(789,864)</u>
	<u>\$ 139,497</u>	<u>\$ 120,221</u>

Depreciation expense is included in miscellaneous expenses on the consolidated statement of activities and changes in net assets at June 30, 2017 and 2016, in the amount of \$63,632 and \$68,064, 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, 2017 are as follows:

2018	\$ 72,210
2019	45,258
2020	<u>13,200</u>
	<u>\$ 130,668</u>

Rental expense under operating leases was \$88,275 and \$91,275 for the year ended June 30, 2017 and 2016, 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, 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>2017</u>	<u>2016</u>
NEF - West Bank	\$ -	\$ 20,961
NEF - Mali	-	20,854
NEF - Jordan	-	13,949
NEF - Armenia	-	10,314
Near East Relief Historical Society	1,436	-
NEF - Lebanon	<u>36,349</u>	<u>107,960</u>
	<u>\$ 37,785</u>	<u>\$ 174,038</u>

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

	<u>2017</u>	<u>2016</u>
NEF- Lebanon	\$ 108,194	\$ 114,526
NEF - West Bank	20,961	-
NEF - Mali	20,854	-
NEF - Armenia	10,314	4,871
Near East Relief Historical Society	48,564	-
NEF - Jordan	<u>13,949</u>	<u>56,051</u>
	<u>\$ 222,836</u>	<u>\$ 175,448</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2017 and 2016 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>2017</u>	<u>2016</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. Under this policy, as approved by the board of directors, the overriding objective is to maintain purchasing power.

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, 2015	\$ 186,078	\$ 3,111,789	\$ 3,297,867
Contributions	163,408	500,000	663,408
Net assets released from restrictions	<u>(175,448)</u>	<u>-</u>	<u>(175,448)</u>
Change in endowment net assets	<u>(12,040)</u>	<u>500,000</u>	<u>487,960</u>
Balance, June 30, 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>(136,254)</u>
Balance, June 30, 2017	<u>\$ 37,785</u>	<u>\$ 3,611,789</u>	<u>\$ 3,649,573</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, 2017 or June 30, 2016.

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 \$122,909 and \$89,136 for the year ended June 30, 2017 and 2016, respectively.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 29, 2018 the date the consolidated financial statements were available to be issued.

NEAR EAST FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals for 2016)

	Near East Foundation	Near East Foundation - UK	Eliminations	Consolidated	
				2017	2016
ASSETS					
Cash and cash equivalents	\$ 1,981,854	\$ 659,404	\$ -	\$ 2,641,258	\$ 1,994,151
Accounts receivable	1,522,730	295,748	(383,967)	1,434,511	1,001,644
Grants and contracts receivable	354,071	187,604	-	541,675	891,068
Prepaid expenses and other assets	51,415	1,381	-	52,796	42,785
Investments	5,480,311	-	-	5,480,311	4,254,688
Property and equipment, net	<u>139,497</u>	<u>-</u>	<u>-</u>	<u>139,497</u>	<u>120,221</u>
Total assets	<u>\$ 9,529,878</u>	<u>\$ 1,144,137</u>	<u>\$ (383,967)</u>	<u>\$ 10,290,048</u>	<u>\$ 8,304,557</u>
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	\$ 1,103,898	\$ 205,403	\$ (383,967)	\$ 925,334	\$ 767,232
Deferred revenue	<u>2,342,560</u>	<u>917,440</u>	<u>-</u>	<u>3,260,000</u>	<u>1,613,715</u>
Total liabilities	<u>3,446,458</u>	<u>1,122,843</u>	<u>(383,967)</u>	<u>4,185,334</u>	<u>2,380,947</u>
NET ASSETS:					
Unrestricted	2,433,846	21,294	-	2,455,140	2,137,783
Temporarily restricted	37,785	-	-	37,785	174,038
Permanently restricted	<u>3,611,789</u>	<u>-</u>	<u>-</u>	<u>3,611,789</u>	<u>3,611,789</u>
Total net assets	<u>6,083,420</u>	<u>21,294</u>	<u>-</u>	<u>6,104,714</u>	<u>5,923,610</u>
Total liabilities and net assets	<u>\$ 9,529,878</u>	<u>\$ 1,144,137</u>	<u>\$ (383,967)</u>	<u>\$ 10,290,048</u>	<u>\$ 8,304,557</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, 2017 (With Comparative Totals for 2016)

	Near East Foundation				Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Near East Foundation - UK	Eliminations	2017	2016
REVENUE AND OTHER SUPPORT:								
Contributions	\$ 593,157	\$ 86,583	\$ -	\$ 679,740	\$ 297,328	\$ (120,000)	\$ 857,068	\$ 2,317,051
Government grants and contracts	11,823,280	-	-	11,823,280	1,171,681	-	12,994,961	7,750,043
Private grants	226,171	-	-	226,171	-	-	226,171	711,080
In-kind contributions	201,260	-	-	201,260	-	-	201,260	385,409
Investment income, net	516,882	-	-	516,882	-	-	516,882	31,544
Other income	(480)	-	-	(480)	87,681	-	87,201	3,878
Net assets released from restrictions	222,836	(222,836)	-	-	-	-	-	-
Total revenue and other support	13,583,106	(136,253)	-	13,446,853	1,556,690	(120,000)	14,883,543	11,199,005
EXPENSES:								
Direct program services	10,955,263	-	-	10,955,263	1,182,475	(120,000)	12,017,738	7,797,676
Program administration	1,782,062	-	-	1,782,062	121,593	-	1,903,655	1,324,182
Total program services	12,737,325	-	-	12,737,325	1,304,068	(120,000)	13,921,393	9,121,858
Management and general	637,463	-	-	637,463	81,812	-	719,275	512,425
Fund-raising	147,752	-	-	147,752	-	-	147,752	505,092
Total expenses	13,522,540	-	-	13,522,540	1,385,880	(120,000)	14,788,420	10,139,375
CHANGE IN NET ASSETS BEFORE FOREIGN CURRENCY TRANSLATION ADJUSTMENT, NON-OPERATING INCOME, AND CHANGES RELATED TO ACQUISITION	60,566	(136,253)	-	(75,687)	170,810	-	95,123	1,059,630
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(82,277)	-	-	(82,277)	(4,806)	-	(87,083)	(24,338)
NON-OPERATING INCOME	317,774	-	-	317,774	-	-	317,774	-
EXCESS OF LIABILITIES ASSUMED OVER ASSETS ACQUIRED ON ACQUISITION	-	-	-	-	(144,710)	-	(144,710)	-
CHANGE IN NET ASSETS	296,063	(136,253)	-	159,810	21,294	-	181,104	1,035,292
NET ASSETS - beginning of year	2,137,783	174,038	3,611,789	5,923,610	-	-	5,923,610	4,888,318
NET ASSETS - end of year	\$ 2,433,846	\$ 37,785	\$ 3,611,789	\$ 6,083,420	\$ 21,294	\$ -	\$ 6,104,714	\$ 5,923,610

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, 2017
(With Comparative Totals for 2016)**

	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	2017	2016
SALARIES AND RELATED EXPENSES:														
Salaries and wages	\$ 1,825,849	\$ 1,011,287	\$ 2,837,136	\$ 278,635	\$ 33,254	\$ 3,149,025	\$ 233,547	\$ 84,024	\$ 317,571	\$ 22,779	\$ 340,350	\$ -	\$ 3,489,375	\$ 2,451,632
Fringe benefits	386,588	270,078	656,666	62,150	7,417	726,233	45,336	10,685	56,021	7,226	63,247	-	789,480	549,711
			-			-								
Total salaries and related expenses	2,212,437	1,281,365	3,493,802	340,785	40,671	3,875,258	278,883	94,709	373,592	30,005	403,597	-	4,278,855	3,001,343
EXPENSES:														
Professional fees/consultants	114,686	90,833	205,519	74,854	83,863	364,236	16,981	2,856	19,837	7,134	26,971	-	391,207	673,600
Occupancy and operating expenses	289,399	130,419	419,818	110,172	9,767	539,757	30,114	1,976	32,090	27,983	60,073	-	599,830	388,175
Travel	541,116	118,180	659,296	91,690	6,418	757,404	85,223	11,416	96,639	12,676	109,315	-	866,719	664,692
Equipment and furniture	66,730	16,254	82,984	13,586	4,605	101,175	4,971	7,134	12,105	575	12,680	-	113,855	54,812
Program activities	7,648,355	130,598	7,778,953	-	-	7,778,953	765,341	-	765,341	-	765,341	(120,000)	8,424,294	5,205,681
Miscellaneous expenses	82,540	14,413	96,953	6,376	2,428	105,757	962	3,502	4,464	3,439	7,903	-	113,660	151,072
	<u>\$ 10,955,263</u>	<u>\$ 1,782,062</u>	<u>\$ 12,737,325</u>	<u>\$ 637,463</u>	<u>\$ 147,752</u>	<u>\$ 13,522,540</u>	<u>\$ 1,182,475</u>	<u>\$ 121,593</u>	<u>\$ 1,304,068</u>	<u>\$ 81,812</u>	<u>\$ 1,385,880</u>	<u>\$ (120,000)</u>	<u>\$ 14,788,420</u>	<u>\$ 10,139,375</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, 2017 (With Comparative Totals for 2016)

	Near East Foundation	Near East Foundation - UK	Consolidated	
			2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:				
Change in net assets before foreign currency translation adjustment and excess liabilities over assets acquired on acquisition	\$ 242,087	\$ 170,810	\$ 412,897	\$ 1,059,630
Adjustments to reconcile change in net assets to net cash flow from operating activities:				
Depreciation	63,632	-	63,632	68,064
Excess liabilities over assets acquired on acquisition	-	(144,710)	(144,710)	-
Net contributions restricted for endowment	-	-	-	(500,000)
Realized and unrealized (gains) losses on investments	(407,878)	-	(407,878)	73,416
Changes in:				
Accounts receivable	(521,086)	(295,748)	(816,834)	(588,738)
Grants and contracts receivable	536,997	(187,604)	349,393	(810,134)
Prepaid expenses	(8,630)	(1,381)	(10,011)	31,244
Accounts payable and accrued expenses	336,666	205,403	542,069	196,191
Deferred revenue	728,845	917,440	1,646,285	1,039,780
Net cash flow from operating activities	970,633	664,210	1,634,843	569,453
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchases of fixed assets	(82,908)	-	(82,908)	(16,116)
Proceeds on sales of investments	533,334	-	533,334	3,497,984
Purchase of investments	(1,351,079)	-	(1,351,079)	(4,119,868)
Net cash flow from investing activities	(900,653)	-	(900,653)	(638,000)
CASH FLOW FROM FINANCING ACTIVITIES:				
Proceeds from contributions restricted for investment in endowment	-	-	-	500,000
Net cash flow from financing activities	-	-	-	500,000
CHANGE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES	69,980	664,210	734,190	431,453
CASH AND CASH EQUIVALENTS - beginning of year	1,994,151	-	1,994,151	1,587,036
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(82,277)	(4,806)	(87,083)	(24,338)
CASH AND CASH EQUIVALENTS - end of year	\$ 1,981,854	\$ 659,404	\$ 2,641,258	\$ 1,994,151

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, 2017
(With Comparative Totals for 2016)**

	Near East Foundation	Near East Foundation - UK	Consolidated	
			2017	2016
Armenia	\$ -	\$ 50,825	\$ 50,825	\$ 3,462
Jordan	2,171,624	13,620	2,185,244	1,461,947
Lebanon	751,954	-	751,954	69,566
Mali	5,264,699	753,007	6,017,706	3,702,479
Morocco	591,756	138,399	730,155	1,237,062
Sudan	1,440,001	180,508	1,620,509	427,278
West Bank/Gaza	735,229	46,116	781,345	895,882
	<u>\$ 10,955,263</u>	<u>\$ 1,182,475</u>	<u>\$ 12,137,738</u>	<u>\$ 7,797,676</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, 2017**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF STATE:			
Empowering Youth through Entrepreneurship in Morocco	19.500	S-NEAPI-14-CA-1003	\$ 475,033
Overseas Refugee Assistance Program for Near East and South Asia	19.519	S-PRMCO-13-CA-1077	260,013
Reducing Risk of Abuse Among Vulnerable Syrian, Iraqi and Jordanian Children in Jordan	19.519	S-PRMCO-16-CA-1271	2,225,518
Reducing Economic and Social Vulnerability of Syrian Refugees and Lebanese in Lebanon	19.519	S-PRMCO-16-CA-1251	<u>857,167</u>
TOTAL OVERSEAS REFUGEE ASSISTANCE PROGRAM FOR NEAR EAST AND SOUTH ASIA			<u>3,342,698</u>
TOTAL DEPARTMENT OF STATE			<u>3,817,731</u>
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT FOREIGN ASSISTANCE FOR PROGRAMS OVERSEAS:			
Olive Oil Without Borders II: Expanding Cross Border Collaboration in the Olive Sector	98.001	AID-294-A-14-00004	435,680
Olive Oil Without Borders III: Building Regional Support for Reconciliation and Economic Cooperation	98.001	AID-294-A-16-00011	216,586
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	1,173,984
Humanitarian Support for IDPs and Vulnerable Populations in Water, Sanitation, and Hygiene in South Kordofan State	98.001	AID-OFDA-G-16-00224	533,497
Youth Agribusiness Partnerships (YAP) under the Conflict Management and Mitigation (CMM) Program	98.001	AID-294-A-13-00015	226,975
Emergency Food Security Program in Mali	98.001	AID-FFP-G-15-000055	<u>816,926</u>
TOTAL U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT FOREIGN ASSISTANCE FOR PROGRAMS OVERSEAS			<u>3,403,648</u>
			<u>\$ 7,221,379</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, 2017

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 REVENUE

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, 2016 through June 30, 2017.

4. MATCHING COSTS

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

5. MAJOR PROGRAM DETERMINATION

Near East Foundation, Inc. has determined that all federal programs with expenditures of \$750,000 or more are Type A programs. Type B programs considered high risk are also considered major programs for the purpose of the schedule of expenditures of federal awards.

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 29, 2018

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

We have audited the consolidated financial statements of Near East Foundation and Subsidiaries (the Foundation) which comprise the consolidated statement of financial position as of June 30, 2017, 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 29, 2018. We conducted our audit 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 UK Limited was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with Near East Foundation UK Limited. 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.

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.

(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 29, 2018

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, 2017. 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 the Foundation's major federal program 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.

432 North Franklin Street, Suite 60
Syracuse, New York 13204
p (315) 476-4004
f (315) 475-1513

www.bonadio.com

(Continued)

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, 2017.

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 JUNE 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	yes	_____	√	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____	√	none
Noncompliance material to 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

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 _____ yes _____ √ no

The programs tested as major programs include:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
98.001	U.S. Agency for International Development: Foreign Assistance for Programs Overseas

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

**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS
JUNE 30, 2017**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - PRIOR YEAR FINDING AND QUESTIONED COSTS

None noted.