

AUDITED FINANCIAL STATEMENTS

MIDDLE EAST FORUM
(A NON-PROFIT ORGANIZATION)

YEARS ENDED DECEMBER 31, 2013 AND 2012

CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activity	6
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
Middle East Forum

We have audited the accompanying financial statements of Middle East Forum (a non-profit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



CLAIRMONT
PACIELLO & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle East Forum as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clairmont, Paciello & Company P.C.

King of Prussia, Pennsylvania
April 30, 2014

MIDDLE EAST FORUM
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,571,443	\$ 2,206,513
Investments	1,357,134	229,972
Accounts receivable	1,675	1,965
Prepaid expenses	<u>18,282</u>	<u>8,949</u>
TOTAL CURRENT ASSETS	<u>2,948,534</u>	<u>2,447,399</u>
PROPERTY AND EQUIPMENT		
Furniture and fixtures	118,745	114,511
Less accumulated depreciation	<u>(98,319)</u>	<u>(89,552)</u>
	<u>20,426</u>	<u>24,959</u>
OTHER ASSETS		
Artwork	14,000	14,000
Security deposits	4,779	4,779
Loan receivable	<u>250,000</u>	<u>250,000</u>
	<u>268,779</u>	<u>268,779</u>
TOTAL ASSETS	\$ <u>3,237,739</u>	\$ <u>2,741,137</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 5,434	\$ 16,728
Deferred revenues	<u>-</u>	<u>4,137</u>
TOTAL CURRENT LIABILITIES	<u>5,434</u>	<u>20,865</u>
NET ASSETS		
Unrestricted	2,533,834	2,167,680
Temporarily restricted	<u>698,471</u>	<u>552,592</u>
	<u>3,232,305</u>	<u>2,720,272</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,237,739</u>	\$ <u>2,741,137</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS		
Revenue and Support		
Contributions and grants	\$ 2,192,021	\$ 2,456,863
Middle East Quarterly	11,987	52,794
Book sales and royalties	4,137	1,015
Investment income	140,987	34,238
Satisfaction of program restrictions	<u>3,256,614</u>	<u>1,907,560</u>
 TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATION	 <u>5,605,746</u>	 <u>4,452,470</u>
 Expenses		
Program services	4,600,452	4,122,684
Supporting services	515,173	408,387
Fundraising services	<u>123,967</u>	<u>125,738</u>
 TOTAL EXPENSES	 <u>5,239,592</u>	 <u>4,656,809</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>366,154</u>	 (<u>204,339</u>)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	3,402,493	2,131,388
Investment income	-	5
Satisfaction of program restrictions	<u>(3,256,614)</u>	<u>(1,907,560)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>145,879</u>	 <u>223,833</u>
 CHANGE IN NET ASSETS	 512,033	 19,494
 NET ASSETS AS OF BEGINNING OF YEAR	 <u>2,720,272</u>	 <u>2,700,778</u>
 NET ASSETS AS OF END OF YEAR	 \$ <u>3,232,305</u>	 \$ <u>2,720,272</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	<u>Program</u> <u>Services</u>	<u>Supporting</u> <u>Services</u>	<u>Fundraising</u> <u>Services</u>	<u>Total</u>
Advertising/Marketing	\$ -	\$ 400	\$ -	\$ 400
Books	-	6,159	-	6,159
Computer and website	-	57,302	-	57,302
Consultants and contract labor	-	35,736	6,500	42,236
Depreciation	-	8,767	-	8,767
Dues and fees	-	21,179	-	21,179
Equipment lease	-	2,572	-	2,572
Events	-	21,583	-	21,583
Gifts	-	617	-	617
Honorarium	-	5,500	-	5,500
Insurance	-	22,093	-	22,093
Office supplies	-	5,039	-	5,039
Payroll	-	176,480	109,608	286,088
Payroll taxes and fringe benefits	-	15,225	7,859	23,084
Program expenses				
Campus Watch	202,305	-	-	202,305
Fellows	79,915	-	-	79,915
Islamist Watch	178,366	-	-	178,366
Legal Project	128,841	-	-	128,841
MEF Educational Fund	3,497,211	-	-	3,497,211
Middle East Quarterly	147,572	-	-	147,572
Public Education	182,725	-	-	182,725
Research	79,123	-	-	79,123
Washington Project	104,394	-	-	104,394
Postage	-	4,609	-	4,609
Professional fees				
Accounting	-	18,000	-	18,000
Rent	-	64,941	-	64,941
Security	-	288	-	288
Telephone	-	11,921	-	11,921
Translators	-	30,285	-	30,285
Travel	-	6,477	-	6,477
	<u>\$ 4,600,452</u>	<u>\$ 515,173</u>	<u>\$ 123,967</u>	<u>\$ 5,239,592</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising Services</u>	<u>Total</u>
Advertising/Marketing	\$ -	\$ 5,211	\$ -	\$ 5,211
Books	-	4,787	-	4,787
Computer expenses	-	24,502	-	24,502
Consultants and contract labor	-	47,814	1,687	49,501
Depreciation	-	1,418	-	1,418
Dues and fees	-	13,212	-	13,212
Equipment lease	-	2,701	-	2,701
Events	-	3,098	-	3,098
Gifts	-	592	-	592
Honorarium	-	8,100	-	8,100
Insurance	-	23,799	-	23,799
Office supplies	-	3,853	-	3,853
Payroll	-	175,060	115,322	290,382
Payroll taxes and fringe benefits	-	11,259	8,243	19,502
Program expenses				
Apartheid Monitor	25,000	-	-	25,000
Campus Watch	176,127	-	-	176,127
Fellows	47,695	-	-	47,695
Islamist Watch	152,184	-	-	152,184
Legal Project	165,822	-	-	165,822
MEF Educational Fund	2,926,320	-	-	2,926,320
Middle East Quarterly	176,283	-	-	176,283
Public Education	232,323	-	-	232,323
Researchers	119,354	-	-	119,354
Translators	18,576	-	-	18,576
Washington Project	83,000	-	-	83,000
Postage	-	3,543	-	3,543
Professional fees				
Accounting	-	17,500	-	17,500
Rent	-	50,280	-	50,280
Security	-	364	-	364
Telephone	-	6,906	-	6,906
Travel	-	4,388	486	4,874
	<u>\$ 4,122,684</u>	<u>\$ 408,387</u>	<u>\$ 125,738</u>	<u>\$ 4,656,809</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Increase in net assets	\$ 512,033	\$ 19,494
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,767	1,418
Realized and unrealized gain on investments	(96,849)	(27,656)
Changes in operating assets and liabilities		
Accounts receivable	290	(588)
Prepaid expenses	(9,333)	10,168
Accounts payable and accrued expenses	(11,294)	16,370
Deferred revenues	<u>(4,137)</u>	<u>(7,820)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>399,477</u>	<u>11,386</u>
INVESTING ACTIVITIES		
Donated securities	(48,917)	(17,587)
Proceeds from sales of investments	164,703	12,744
Purchases of investments	(1,146,099)	(5,660)
Purchases of equipment	<u>(4,234)</u>	<u>(21,334)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,034,547)</u>	<u>(31,837)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(635,070)	(20,451)
CASH AND CASH EQUIVALENTS AS OF BEGINNING OF YEAR	<u>2,206,513</u>	<u>2,226,964</u>
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	\$ <u>1,571,443</u>	\$ <u>2,206,513</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Nature of activities

The Middle East Forum (the Organization) is a non-profit organization that (1) promotes American interests in the Middle East and (2) protects Western values from Middle Eastern threats. The Organization's work includes research, publications, educational programs, media outreach, activism, and networking. The Organization's support comes primarily through donations.

2. Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

3. Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

4. Cash and cash equivalents

The Organization considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

5. Public support and revenue

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

See independent auditors' report.

MIDDLE EAST FORUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

5. Public support and revenue (continued)

Contributions of donated non cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

6. Property and equipment

It is the Organization's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense at December 31, 2013 and 2012 was \$8,767 and \$1,418.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

8. Investments

Investments are composed of equity securities and are carried at their fair value.

9. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

See independent auditors' report.

MIDDLE EAST FORUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE B - INVESTMENTS

Investments as of December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Gain (Loss)</u>
Unrestricted:			
Mutual funds	\$ 484,238	\$ 536,339	\$ 52,101
Common stocks	244,433	280,633	36,200
Preferred stocks	15,413	11,880	(3,533)
52 shares credit Suisse Dollar Senior Loan Offshore Fund, Ltd	<u>519,676</u>	<u>528,282</u>	<u>8,606</u>
	<u>\$ 1,263,760</u>	<u>\$ 1,357,134</u>	<u>\$ 93,374</u>
	<u>2012</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Gain (Loss)</u>
Unrestricted:			
1,239 shares Vanguard Developed Markets Index Fund-Admiral	\$ 32,010	\$ 35,455	\$ 3,445
2,343 shares Vanguard Total International Stock Index Fund-Admiral	63,106	58,706	(4,400)
3,655 shares Vanguard Total Stock Market Index Admiral	123,123	130,310	7,187
100 shares Clean Harbors, Inc.	<u>5,501</u>	<u>5,501</u>	<u>-</u>
	<u>\$ 223,740</u>	<u>\$ 229,972</u>	<u>\$ 6,232</u>

The Organization adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, for assets and liabilities measured at fair value on a recurring basis. The codification established a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

FASB ASC 820 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 and establishes a framework for measuring fair value. Additionally, FASB ASC 820 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

See independent auditors' report.

MIDDLE EAST FORUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE B - INVESTMENTS (CONTINUED)

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

At December 31, 2013 and 2012, marketable securities consisted of exchange traded funds that were measured using the Level 1 valuation hierarchy.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Unrestricted:		
Interest and dividends	\$ 44,138	\$ 6,577
Net realized and unrealized gains(losses)	<u>96,849</u>	<u>27,656</u>
	<u>140,987</u>	<u>34,233</u>
Restricted:		
Interest and dividends	-	5
Net realized and unrealized losses	<u>-</u>	<u>-</u>
	<u>-</u>	<u>5</u>
 Total investment income	 \$ <u>140,987</u>	 \$ <u>34,238</u>

NOTE C - LOAN RECEIVABLE

Loan receivable from a professional entity to be repaid from proceeds from a settlement, judgment or arbitration award that provides attorneys' fees. The loan is uncollateralized with no stated interest rate. The organization has committed to loan the entity up to a maximum of \$250,000.

NOTE D - INCOME TAXES

The Organization was granted tax exempt status under Section 501 (c) (3) of the Internal Revenue Code. Therefore no provision for income taxes has been made in these financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(1) and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi).

See independent auditors' report.

MIDDLE EAST FORUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE E - RESTRICTION ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2013</u>	<u>2012</u>
MEF Educational Fund	\$ <u>698,471</u>	\$ <u>552,592</u>

NOTE F - EDUCATION FUND

In 2008, the Organization established an education fund to support researchers, writers, moderate Muslims, investigators, and activists whose work focuses on the Middle East and Islam. The education fund accounted for 76% and 71% of the organizations program services for 2013 and 2012.

NOTE G - COMMITMENTS

The Organization leases its office facility under a non-cancelable operating lease that expires on August 31, 2020. The Organization also leases office equipment under non-cancelable operating leases which expire on various dates thru 2017. Rent expense charged to operations for the years ended December 31, 2013 and 2012 was \$67,513 and \$52,981.

As of December 31, 2013, the future minimum lease payments under the above operating leases are:

<u>Year ending December 31</u>	<u>Amount</u>
2014	\$ 56,639
2015	57,148
2016	58,328
2017	58,639
2018 and thereafter	<u>162,572</u>
	<u>\$ 393,326</u>

NOTE H - CONCENTRATION OF RISK

As of the balance sheet dates, balances of cash and cash equivalents at financial institutions exceeded the federally insured limit of \$250,000 by \$1,906,489 in 2013 and \$1,036,085 in 2012. These balances fluctuate greatly during the year and can exceed the \$250,000 limit.

NOTE I - UNCERTAIN TAX PROVISION

During the years ended December 31, 2013 and 2012, the Organization did not incur any interest or penalties on its tax returns. The Organization's tax returns are subject to possible examinations by the taxing authorities for federal and state tax purposes and essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

See independent auditors' report.

MIDDLE EAST FORUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE J - DATE OF MANAGEMENT REVIEW

Subsequent events were evaluated through April 30, 2014, which is the date the financial statements were available to be issued.

See independent auditors' report.