

AUDITED FINANCIAL STATEMENTS

MIDDLE EAST FORUM  
(A NON-PROFIT ORGANIZATION)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014 and 2013, 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, 2014 and 2013, 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, Pacello & Company P.C.*

King of Prussia, Pennsylvania  
July 31, 2015

MIDDLE EAST FORUM  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31,

ASSETS

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,160,952	\$ 1,571,443
Investments	2,280,939	1,357,134
Accounts receivable	290	1,675
Prepaid expenses	<u>15,209</u>	<u>18,282</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>3,457,390</u></b>	<b><u>2,948,534</u></b>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and fixtures	118,745	118,745
Less accumulated depreciation	<u>( 107,435)</u>	<u>( 98,319)</u>
	<u>11,310</u>	<u>20,426</u>
<b>OTHER ASSETS</b>		
Artwork	-	14,000
Security deposits	4,779	4,779
Loan receivable	<u>250,000</u>	<u>250,000</u>
	<u>254,779</u>	<u>268,779</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>3,723,479</u></b>	<b>\$ <u>3,237,739</u></b>

LIABILITIES AND NET ASSETS

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ <u>5,502</u>	\$ <u>5,434</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>5,502</u></b>	<b><u>5,434</u></b>
<b>NET ASSETS</b>		
Unrestricted	2,463,897	2,533,834
Temporarily restricted	<u>1,254,080</u>	<u>698,471</u>
	<u>3,717,977</u>	<u>3,232,305</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>3,723,479</u></b>	<b>\$ <u>3,237,739</u></b>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM  
STATEMENTS OF ACTIVITY  
YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
Revenue and support	\$ 1,667,793	\$ 2,192,021
Middle East Quarterly	-	11,987
Book sales and royalties	3,451	4,137
Investment income	21,525	140,987
Loss on sale of artwork	( 11,000)	-
Satisfaction of program restrictions	<u>1,888,645</u>	<u>3,256,614</u>
 TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATION	 <u>3,570,414</u>	 <u>5,605,746</u>
 Expenses		
Program services	2,985,731	4,600,452
Supporting services	524,183	515,173
Fundraising services	<u>130,437</u>	<u>123,967</u>
 TOTAL EXPENSES	 <u>3,640,351</u>	 <u>5,239,592</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>( 69,937)</u>	 <u>366,154</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	2,444,254	3,402,493
Satisfaction of program restrictions	<u>(1,888,645)</u>	<u>(3,256,614)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>555,609</u>	 <u>145,879</u>
 CHANGE IN NET ASSETS	 485,672	 512,033
 NET ASSETS AS OF BEGINNING OF YEAR	 <u>3,232,305</u>	 <u>2,720,272</u>
 NET ASSETS AS OF END OF YEAR	 \$ <u>3,717,977</u>	 \$ <u>3,232,305</u>

See accompanying notes and independent auditors' report.

MIDDLE EAST FORUM  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising Services</u>	<u>Total</u>
Books	\$ -	\$ 3,452	\$ -	\$ 3,452
Computer and website	-	60,972	-	60,972
Consultants and contract labor	-	10,758	7,496	18,254
Depreciation	-	9,116	-	9,116
Dues and fees	-	36,431	-	36,431
Equipment lease	-	2,201	-	2,201
Events	-	24,622	-	24,622
Gifts	-	909	-	909
Honorarium	-	3,049	-	3,049
Insurance	-	19,430	-	19,430
Office supplies	-	2,824	-	2,824
Payroll	-	204,346	115,273	319,619
Payroll taxes and fringe benefits	-	10,644	7,668	18,312
Program expenses				
Campus Watch	172,814	-	-	172,814
Fellows	105,869	-	-	105,869
Islamist Watch	180,136	-	-	180,136
Legal Project	111,538	-	-	111,538
MEF Educational Fund	1,975,152	-	-	1,975,152
Middle East Quarterly	118,685	-	-	118,685
Public Education	162,916	-	-	162,916
Research	72,921	-	-	72,921
Washington Project	85,700	-	-	85,700
Postage	-	2,827	-	2,827
Professional fees	-	19,144	-	19,144
Rent	-	59,320	-	59,320
Security	-	288	-	288
Telephone	-	14,790	-	14,790
Translators	-	33,518	-	33,518
Travel	-	5,542	-	5,542
	<u>\$ 2,985,731</u>	<u>\$ 524,183</u>	<u>\$ 130,437</u>	<u>\$ 3,640,351</u>

See accompanying notes and independent auditors' report.

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

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising 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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 485,672	\$ 512,033
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,116	8,767
Realized and unrealized (gain) losses on investments	58,229	( 96,849)
Loss on sale of artwork	11,000	-
Changes in operating assets and liabilities		
Accounts receivable	1,385	290
Prepaid expenses	3,073	( 9,333)
Accounts payable and accrued expenses (	68)	( 11,294)
Deferred revenues	<u>-</u>	<u>( 4,137)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>568,407</u>	 <u>399,477</u>
 INVESTING ACTIVITIES		
Donated securities	( 31,594)	( 48,917)
Proceeds from sales of investments	482,844	164,703
Purchases of investments	(1,433,148)	(1,146,099)
Purchases of equipment	-	( 4,234)
Proceeds from sale of artwork	<u>3,000</u>	<u>-</u>
 NET CASH USED IN INVESTING ACTIVITIES	 <u>( 978,898)</u>	 <u>(1,034,547)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 <u>( 410,491)</u>	 <u>( 635,070)</u>
 CASH AND CASH EQUIVALENTS AS OF BEGINNING OF YEAR	 <u>1,571,443</u>	 <u>2,206,513</u>
 CASH AND CASH EQUIVALENTS AS OF END OF YEAR	 \$ <u>1,160,952</u>	 \$ <u>1,571,443</u>

See accompanying notes and independent auditors' report.

## MIDDLE EAST FORUM

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

#### 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.

MIDDLE EAST FORUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 over the estimated useful lines of the assets. Depreciation expense at December 31, 2014 and 2013 was \$9,116 and \$8,767.
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. Investment income and realized and unrealized gains and losses are reported as increase or decrease in unrestricted net assets absent any donor restrictions.
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.

MIDDLE EAST FORUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE B - INVESTMENTS

Investments as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Gain (Loss)</u>
Unrestricted:			
Mutual funds	\$ 1,421,538	\$ 1,426,610	\$ 5,072
Common stocks	301,243	318,983	17,740
Suisse Dollar Senior Loan Offshore Fund, Ltd	<u>539,662</u>	<u>535,346</u>	( 4,316)
	<u>\$ 2,262,443</u>	<u>\$ 2,280,939</u>	<u>\$ 18,496</u>
	<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)
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>

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:

MIDDLE EAST FORUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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.

We measured certain financial instruments at fair value on a recurring basis. Financial assets measured at fair value on a recurring basis are as follows:

	<u>2014</u>	<u>2013</u>
Investments - Level 1	\$ <u>2,280,939</u>	\$ <u>1,357,134</u>

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

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Interest and dividends	\$ 79,754	\$ 44,138
Net realized and unrealized gains(losses)	<u>(58,229)</u>	<u>96,849</u>
Total investment income	\$ <u>21,525</u>	\$ <u>140,987</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).

MIDDLE EAST FORUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE E - RESTRICTION ON NET ASSETS

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

	<u>2014</u>	<u>2013</u>
MEF Educational Fund	\$ 1,249,080	\$ 698,471
Foundation for the Middle East Forum	5,000	-
	<u>\$ 1,254,080</u>	<u>\$ 698,471</u>

NOTE F - RESTRICTED FUNDS

In 2008, the Organization established The Middle East Forum 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 65% and 76% of the organizations program services for 2014 and 2013.

In 2014, the Organization established the Foundation for the Middle East Forum (FMEF) to provide a vehicle for estate, lifetime and testamentary gifts.

NOTE G - COMMITMENTS

The Organization leases its office facility under a non-cancellable 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, 2014 and 2013 was \$61,521 and \$67,513.

As of December 31, 2014, the future minimum lease payments under the above operating leases are:

<u>Year ending</u> <u>December 31</u>	<u>Amount</u>
2015	\$ 57,148
2016	58,328
2017	58,639
2018	59,896
2019 and thereafter	<u>102,676</u>
	<u>\$ 336,687</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 \$571,862 in 2014 and \$1,906,489 in 2013. These balances fluctuate greatly during the year and can exceed the \$250,000 limit.

MIDDLE EAST FORUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE I - UNCERTAIN TAX PROVISION

During the years ended December 31, 2014 and 2013, 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.

NOTE J - DATE OF MANAGEMENT REVIEW

Subsequent events were evaluated through July 31, 2015, which is the date the financial statements were available to be issued.