

THE MIDDLE EAST INSTITUTE

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019 AND 2018

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Independent Auditor's Report

To the Board of Governors
The Middle East Institute
Washington, DC

We have audited the accompanying financial statements of The Middle East Institute (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 the 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 financial statements based on our audits. We conducted our audits 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Middle East Institute as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2019, The Middle East Institute adopted new accounting guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Janet Maruca & M^oQuade PA

Washington, DC
November 10, 2020

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 301,604	\$ 488,083
Accounts receivable	133,536	138,351
Grants and contributions receivable	1,057,000	663,716
Prepaid expenses	56,912	195,376
Total Current Assets	1,549,052	1,485,526
PROPERTY AND EQUIPMENT, NET	15,080,573	9,242,791
OTHER ASSETS		
Investments in board designated account	11,020,136	16,455,503
Investments - endowment funds	3,778,591	3,156,624
Investments in beneficial interest in perpetual trust	1,305,032	1,177,232
Total Other Assets	16,103,759	20,789,359
TOTAL ASSETS	\$ 32,733,384	\$ 31,517,676
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 438,689	\$ 821,898
Accrued expenses	145,805	72,788
Deferred revenue	986,265	495,509
Total Liabilities	1,570,759	1,390,195
NET ASSETS		
Without donor restrictions:		
Undesignated	15,058,866	9,338,122
Board designated	11,020,136	16,455,503
Total without donor restrictions	26,079,002	25,793,625
With donor restrictions	5,083,623	4,333,856
Total Net Assets	31,162,625	30,127,481
TOTAL LIABILITIES AND NET ASSETS	\$ 32,733,384	\$ 31,517,676

The accompanying notes are an integral part of these financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 2,605,796	\$ -	\$ 2,605,796
Grants	502,736	-	502,736
Membership dues	32,555	-	32,555
Center for Policy Studies	587,485	-	587,485
Center for Education	286,528	-	286,528
Interest and dividends, net	350,271	113,728	463,999
Rental and other income	53,248	-	53,248
Net assets released from restrictions	45,700	(45,700)	-
Total Revenue and Support	<u>4,464,319</u>	<u>68,028</u>	<u>4,532,347</u>
EXPENSES			
Program services:			
Center for Policy Studies	2,899,278	-	2,899,278
Center for Arts and Culture	516,527	-	516,527
Center for Education	421,140	-	421,140
Communications	371,043	-	371,043
Total Program Services	<u>4,207,988</u>	<u>-</u>	<u>4,207,988</u>
Support services:			
Fundraising	526,500	-	526,500
General and administrative	767,097	-	767,097
Total Support Services	<u>1,293,597</u>	<u>-</u>	<u>1,293,597</u>
Total Expenses	<u>5,501,585</u>	<u>-</u>	<u>5,501,585</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(1,037,266)	68,028	(969,238)
OTHER CHANGES			
Net appreciation in fair value of board designated investments	1,322,643	-	1,322,643
Net appreciation in fair value of endowment investments	-	530,820	530,820
Net appreciation in beneficial interest in perpetual trust	-	150,919	150,919
Total Other Changes	<u>1,322,643</u>	<u>681,739</u>	<u>2,004,382</u>
CHANGE IN NET ASSETS	285,377	749,767	1,035,144
NET ASSETS, beginning of year	<u>25,793,625</u>	<u>4,333,856</u>	<u>30,127,481</u>
NET ASSETS, end of year	<u>\$ 26,079,002</u>	<u>\$ 5,083,623</u>	<u>\$ 31,162,625</u>

The accompanying notes are an integral part of these financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 2,302,606	\$ -	\$ 2,302,606
Grants	342,677	57,527	400,204
Membership dues	29,885	-	29,885
Center for Policy Studies	557,727	-	557,727
Center for Education	313,786	-	313,786
Interest and dividends, net	423,198	102,921	526,119
Rental and other income	39,847	-	39,847
Net assets released from restrictions	507,910	(507,910)	-
Total Revenue and Support	4,517,636	(347,462)	4,170,174
EXPENSES			
Program services:			
Center for Policy Studies	2,972,191	-	2,972,191
Center for Arts and Culture	545,476	-	545,476
Center for Education	400,962	-	400,962
Communications	362,991	-	362,991
Total Program Services	4,281,620	-	4,281,620
Support services:			
Fundraising	516,771	-	516,771
General and administrative	645,485	-	645,485
Total Support Services	1,162,256	-	1,162,256
Total Expenses	5,443,876	-	5,443,876
CHANGE IN NET ASSETS FROM OPERATIONS	(926,240)	(347,462)	(1,273,702)
OTHER CHANGES			
Net depreciation in fair value of board designated investments	(707,887)	-	(707,887)
Net depreciation in fair value of endowment investments	-	(277,492)	(277,492)
Net depreciation in beneficial interest in perpetual trust	-	(81,396)	(81,396)
Total Other Changes	(707,887)	(358,888)	(1,066,775)
CHANGE IN NET ASSETS	(1,634,127)	(706,350)	(2,340,477)
NET ASSETS, beginning of year	27,427,752	5,040,206	32,467,958
NET ASSETS, end of year	\$ 25,793,625	\$ 4,333,856	\$ 30,127,481

The accompanying notes are an integral part of these financial statements.

THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	PROGRAM SERVICES				SUPPORT SERVICES				
	Center for Policy Studies	Center for Arts and Culture	Center for Education	Communications	Total Program Services	Fundraising	General and Administrative	Total Support Services	Total Expenses
Personnel:									
Salaries	\$ 1,307,938	\$ 272,103	\$ 243,917	\$ 177,764	\$ 2,001,722	\$ 262,005	\$ 135,911	\$ 397,916	\$ 2,399,638
Employee benefits	170,374	15,419	12,749	12,709	211,251	27,911	28,982	56,893	268,144
Payroll taxes	89,400	15,583	13,248	14,478	132,709	20,698	21,509	42,207	174,916
Subtotal Personnel	1,567,712	303,105	269,914	204,951	2,345,682	310,614	186,402	497,016	2,842,698
Advertising	13,207	869	21,363	20,859	56,298	8,024	4,123	12,147	68,445
Bad debt	1,000	-	1,050	-	2,050	-	670	670	2,720
Bank charges	4,483	61	10,644	-	15,188	-	5,483	5,483	20,671
Depreciation and amortization	109,095	18,183	10,101	18,183	155,562	18,183	28,283	46,466	202,028
Dues and subscriptions	3,055	42	5,586	41,209	49,892	613	2,050	2,663	52,555
Facilities, food and beverages	279,340	79,432	419	524	359,715	16,079	2,468	18,547	378,262
Insurance	-	1,828	4,952	-	6,780	-	53,707	53,707	60,487
Occupancy	250,580	41,763	25,423	41,763	359,529	41,763	64,966	106,729	466,258
Miscellaneous	-	-	-	-	-	-	9,279	9,279	9,279
Postage and delivery	1,451	13,045	13	29	14,538	92	2,291	2,383	16,921
Printing and publications	34,874	19,171	55	120	54,220	4,929	8,941	13,870	68,090
Professional services	441,296	20,731	37,906	17,615	517,548	110,225	162,465	272,690	790,238
Repairs and maintenance	-	-	2,709	-	2,709	-	60,389	60,389	63,098
Supplies and equipment	11,628	-	10,408	13,191	35,227	4,278	115,558	119,836	155,063
Telecommunications	10,314	348	-	12,599	23,261	-	55,937	55,937	79,198
Travel and entertainment	171,243	17,949	20,597	-	209,789	11,700	4,085	15,785	225,574
Total	<u>\$ 2,899,278</u>	<u>\$ 516,527</u>	<u>\$ 421,140</u>	<u>\$ 371,043</u>	<u>\$ 4,207,988</u>	<u>\$ 526,500</u>	<u>\$ 767,097</u>	<u>\$ 1,293,597</u>	<u>\$ 5,501,585</u>

The accompanying notes are an integral part of these financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	PROGRAM SERVICES				SUPPORT SERVICES				
	Center for Policy Studies	Center for Arts and Culture	Center for Education	Communications	Total Program Services	Fundraising	General and Administrative	Total Support Services	Total Expenses
Personnel:									
Salaries	\$ 1,287,572	\$ 267,866	\$ 240,119	\$ 174,996	\$ 1,970,553	\$ 257,925	\$ 133,795	\$ 391,720	\$ 2,362,273
Employee benefits	193,588	17,520	14,486	14,441	240,035	31,714	32,930	64,644	304,679
Payroll taxes	82,187	14,326	12,179	13,310	122,002	19,028	19,773	38,801	160,803
Subtotal Personnel	1,563,347	299,712	266,784	202,747	2,332,590	308,667	186,498	495,165	2,827,755
Advertising	3,799	250	6,145	6,000	16,194	2,308	1,186	3,494	19,688
Bad debt	3,099	-	53	-	3,152	-	412	412	3,564
Bank charges	4,387	60	10,416	-	14,863	-	5,365	5,365	20,228
Depreciation and amortization	187,584	31,264	17,369	31,264	267,481	31,264	48,633	79,897	347,378
Dues and subscriptions	2,720	37	4,973	36,688	44,418	546	1,825	2,371	46,789
Facilities, food and beverages	319,813	90,941	480	600	411,834	18,409	2,825	21,234	433,068
Insurance	-	1,864	5,050	-	6,914	-	54,772	54,772	61,686
Occupancy	335,844	55,974	34,073	55,974	481,865	55,974	87,070	143,044	624,909
Miscellaneous	-	-	-	-	-	-	291	291	291
Postage and delivery	1,488	13,377	13	30	14,908	94	2,349	2,443	17,351
Printing and publications	31,850	17,509	50	110	49,519	4,502	8,165	12,667	62,186
Professional services	322,329	15,142	27,687	12,866	378,024	80,510	118,667	199,177	577,201
Repairs and maintenance	-	-	955	-	955	-	21,291	21,291	22,246
Supplies and equipment	5,632	-	5,041	6,389	17,062	2,072	55,969	58,041	75,103
Telecommunications	8,451	285	-	10,323	19,059	-	45,831	45,831	64,890
Travel and entertainment	181,848	19,061	21,873	-	222,782	12,425	4,336	16,761	239,543
Total	<u>\$ 2,972,191</u>	<u>\$ 545,476</u>	<u>\$ 400,962</u>	<u>\$ 362,991</u>	<u>\$ 4,281,620</u>	<u>\$ 516,771</u>	<u>\$ 645,485</u>	<u>\$ 1,162,256</u>	<u>\$ 5,443,876</u>

The accompanying notes are an integral part of these financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,035,144	\$ (2,340,477)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	202,028	347,378
Net depreciation (appreciation) in fair value on investments	(2,004,382)	1,066,775
Change in beneficial interest in perpetual trust	(127,800)	90,305
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	4,815	(43,579)
Prepaid expenses	138,464	420,567
Grants and contributions receivable	(393,284)	39,320
Increase (decrease) in liabilities:		
Accounts payable	(383,209)	197,163
Accrued expenses	73,017	(110,962)
Deferred revenue	490,756	337,005
Net Cash (Used for) Provided by Operating Activities	(964,451)	3,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,039,810)	(5,857,992)
Proceeds from sale of investments	14,150,993	8,563,522
Purchases of investments	(7,461,011)	(3,073,428)
Net Cash Provided by (Used for) Investing Activities	650,172	(367,898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Beneficial interest in perpetual trust	127,800	(90,305)
Net Cash Provided by (Used for) Financing Activities	127,800	(90,305)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(186,479)	(454,708)
CASH AND CASH EQUIVALENTS, beginning of year	488,083	942,791
CASH AND CASH EQUIVALENTS, end of year	\$ 301,604	\$ 488,083

The accompanying notes are an integral part of these financial statements.

**THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

The Middle East Institute ("MEI") is a nonprofit nonstock corporation located in Washington, D.C., and was founded in 1946. MEI's mission is to promote knowledge of the Middle East in the United States as well as strengthen understanding of the United States among the people and governments of the Middle East.

Program Services

Center for Policy Studies: MEI's experts research and explore foreign policy issues related to the challenges and opportunities in the Middle East. They publish their findings and communicate through MEI's communication channels and through the national and international media. They regularly brief policymakers, US and foreign diplomats, and the international business community on issues impacting the Middle East, and have advised the highest levels of government including Cabinet Secretaries and the White House. MEI's policy program has grown along with its overall forward trajectory. In recent years, MEI has added Track II Diplomacy, Counter Terrorism, and other special focus areas that monitor ongoing developments in critical areas.

MEI's television studio enables scholars to join broadcast programs faster and more frequently, allowing MEI to provide real-time commentary on breaking news, and to ensure that MEI's balanced analysis reaches policymakers and the public.

Center for Arts and Culture: Since its inception in 2014, MEI's arts and culture program has become a destination in Washington, D.C. for audiences interested in the Middle East's dynamic arts scene. MEI promotes the work of artists, writers and filmmakers from the region, connecting DC audiences with the Middle East's vibrant arts and culture sector.

Center for Education: MEI provides academic and professional services to current and future generations of Middle East analysts and enthusiasts. MEI's language program provides instruction in Arabic, Turkish, Hebrew, Farsi, and other languages, and its regional studies program provides an in-depth educational experience to those seeking a greater understanding of the Middle East.

MEI's leadership development program provides the hands-on training and the professional development seminars to top university students and recent graduates who work alongside MEI's staff and scholars on research projects, public programs, development initiatives, and events.

Communications Department: The communications department manages MEI's media relations, website content, social media and e-mail outreach platforms, and institutional branding. It is also responsible for multimedia production, including a weekly podcast, short informational videos and promotional ads, recording and live-streaming public events, and managing the in-house broadcasting studio. It provides services and technical support across all other centers and departments.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of MEI are prepared using the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Adoption of New Accounting Pronouncement

The Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification Topic 606*, ASU 2014-09, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. MEI has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

Financial Statement Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Not-for-Profit-Entities. In accordance with the topic, MEI is required to report information regarding its financial position and activities according to two classes of net assets. Accordingly, the net assets of MEI and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met by either actions of MEI and/or the passage of time, or that must be maintained permanently by MEI. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, MEI considers all highly liquid funds including funds in interest bearing savings accounts to be cash equivalents except those included as part of an investment portfolio. Cash and cash equivalents in non-interest bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At times, the accounts may exceed this limit; however, MEI believes it is not exposed to any significant credit risk on cash or cash equivalents.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accounts, Grants and Contributions Receivable

Accounts, grants, and contributions receivable are stated at the amount management expects to collect from balances outstanding at year end. Throughout the year, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection of information, and existing economic conditions. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. Management believes all receivables are fully collectible and no provision for allowance for doubtful account is deemed necessary.

Investments

Investments are reported at fair value based on quoted market prices, if available. Interest is recognized on the accrual basis. Dividends are recognized on the ex-dividend date. Net appreciation or depreciation in the fair value of investments and interest and dividends are recognized in the period in which such changes occur, and is presented separately in the statement of activities as non-operating revenue. Donated investments are recorded at fair value on the date of donation.

Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful life of the assets using the straight-line method as follows:

Building and improvements	20 – 35 years
Office equipment and furniture	3 – 10 years

When property or equipment is sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in the statement of activities. Expenditures for maintenance and repairs that do not materially extend the useful lives of property and equipment are charged to expense when incurred. MEI capitalizes property and equipment equal to or greater than \$5,000.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition

The activities of MEI are funded by private contributions and membership dues as well as revenue generated from *The Middle East Journal*, language classes, and other programs.

MEI recognizes grants and contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions. Contributions with donor restrictions that are met in the same reporting period as the contribution is received are reported as contributions without donor restrictions support.

Management performed an analysis of the dollar value of benefits provided to members in exchange for dues, and determined that total benefits provided to its members were nominal. As such, it was determined that membership dues are in essence unconditional and unrestricted contributions made to MEI, and are recognized as revenue when received.

Center for Policy Studies revenue consists of journal subscriptions, royalties, the annual banquet, and policy study programs. Subscription and royalty revenue for *The Middle East Journal* is recognized over the term of the subscriptions. Annual banquet revenue, including sponsorships and ticket sales revenues, is recognized in the year in which the banquet occurs.

Center for Education revenue consists of various classes including language and private instructions. Education revenue is recognized when students attend the classes.

Deferred Revenue

Deferred revenue represents unearned income received for subscriptions to MEI's quarterly journal, tuition fees paid for various language classes held throughout the year, and advertising revenue for advertisements to be placed in the journals published in future periods. Deferred revenue also includes conditional grants in which MEI received advance payments prior to the satisfaction of the terms and conditions outlined in the grant agreements.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Methods Used for Allocation of Expenses for Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the MEI. Those expenses include depreciation, the executive office, occupancy and technology. MEI uses the direct method of allocating costs of the service departments to each operating department based on the department's share of the applicable costs. The President's cost allocation was based on the time and effort spent in each department. All other categories were based on the number of employees per department.

NOTE C - INCOME TAXES

MEI is a 501(c)(3) organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the "Code") and is not a private foundation. Under the provisions of the Code, MEI is, however, subject to tax on business income unrelated to its exempt purpose. As of December 31, 2019 and 2018, MEI had no liability for tax on unrelated business income. MEI files information returns and other tax returns as required.

MEI believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

MEI's information returns are subject to examination by the Internal Revenue Service ("IRS") for a period of three years from the date they were filed, except under certain circumstances. The information returns for the years ending December 31, 2016 through 2018 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

(continued)

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

MEI’s management regularly monitors liquidity requirements to ensure that ongoing operating needs and other contractual commitments are met. Timing of revenue receipts also ensures the availability of necessary operational funds. Sources of liquidity available to MEI include financial assets consisting of cash and cash equivalents, accounts, grants and contributions receivable, and investments. Although MEI does not intend to spend from its board designated reserves, other than amounts appropriated for expenditure, funds could be made available through board resolutions, if necessary.

In determining the adequacy of liquidity sources to cover general operating expenditures over a 12-month period, MEI considers all expenditures related to its ongoing program activities as well as services undertaken to support those programs, to be general operating expenditures.

	2019	2018
Cash and cash equivalents	\$ 301,604	\$ 488,083
Accounts receivable	133,536	138,351
Grants and contributions receivable	1,057,000	663,716
Investments in board designated account	11,020,136	16,455,503
Investments - endowment funds	3,778,591	3,156,624
Investments in beneficial interest in perpetual trust	1,305,032	1,177,232
Total Financial Assets	17,595,899	22,079,509
Less: board designated reserves	(11,020,136)	(16,455,503)
Less: net assets encumbered by donor restrictions - perpetual in nature	(5,083,623)	(4,333,856)
Total Financial Assets Available to Meet Cash		
Needs for General Expenditures within One Year	\$ 1,492,140	\$ 1,290,150

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2019	2018
Building and improvements	\$ 16,339,283	\$ 1,623,843
Office equipment and furniture	836,781	818,118
Land	334,115	334,115
Construction - work in progress	-	8,694,293
	17,510,179	11,470,369
Less: accumulated depreciation and amortization	(2,429,606)	(2,227,578)
Property and Equipment, Net	\$ 15,080,573	\$ 9,242,791

Depreciation and amortization expense totaled \$202,028 and \$347,378 for the years ended December 31, 2019 and 2018, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). Level 1 of the fair value hierarchy under FASB ASC 820 is described as inputs to the valuation methodology that are unadjusted quoted prices for identical assets or liabilities in active markets that MEI has the ability to access.

- Level 1* Inputs are based on unadjusted quoted prices for identical assets traded in active markets that MEI has the ability to access.

- Level 2* Inputs are based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

- Level 3* Inputs are unobservable and significant to the fair value measurement.

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(continued)

NOTE F - FAIR VALUE MEASUREMENTS - continued

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

The following is a description of the valuation methodologies used to measure investments at fair value: mutual funds, exchange traded funds, and common and preferred stocks and exchange traded funds are valued at the observable closing price reported in the active market in which the individual securities are traded. The fair values of corporate bonds, U.S. Treasury bonds, and certificates of deposit have been provided by MEI's investment managers and custodian banks, which use a variety of pricing sources to determine market valuations, including indexes for each sector of the market.

The following table present MEI's fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2019:

	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 161,603	\$ -	\$ -	\$ 161,603
Common and preferred stock	64,428	-	-	64,428
U.S. treasury bonds	-	1,299,961	-	1,299,961
Corporate bonds	-	91,386	-	91,386
Certificates of deposit	-	123,457	-	123,457
Mutual funds:				
Fixed income	5,585,866	-	-	5,585,866
Equity	8,689,739	-	-	8,689,739
Exchange traded funds	87,319	-	-	87,319
Total Assets at Fair Value	<u>\$14,588,955</u>	<u>\$ 1,514,804</u>	<u>\$ -</u>	<u>\$16,103,759</u>

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(continued)

NOTE F - FAIR VALUE MEASUREMENTS - continued

The following table present MEI's fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2018:

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,659,650	\$ -	\$ -	\$ 1,659,650
Common and preferred stock	256,435	-	-	256,435
U.S. treasury bonds	-	6,800,000	-	6,800,000
Corporate bonds	-	24,919	-	24,919
Certificates of deposit	-	217,855	-	217,855
Money market funds	46,325	-	-	46,325
Mutual funds:				
Fixed income	4,810,017	-	-	4,810,017
Equity	6,608,774	-	-	6,608,774
Exchange traded funds	365,384	-	-	365,384
Total Assets at Fair Value	\$ 13,746,585	\$ 7,042,774	\$ -	\$ 20,789,359

NOTE G – ENDOWMENTS

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), the provisions of which apply to endowment funds existing on or established after that date. MEI is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and, in doing so, to consider a number of factors including the duration and preservation of its donor restricted endowment funds.

As a result of this interpretation, MEI classified as net assets with donor restrictions the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified as net assets without donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by MEI in a manner consistent with the standard of prudence prescribed by UPMIFA. MEI has adopted, and the Board of Governors has approved, the Statement of Investment Policies for each endowment fund. These policies have identified an appropriate risk posture for the funds, stated expectations and objectives for the funds, provided asset allocation guidelines, and established criteria to monitor and evaluate the performance results of the funds' managers. MEI expects the endowment funds to provide an average real rate of return to equal the return of the benchmark for each asset/sub-asset class. To satisfy the long-term rate of return objectives, MEI relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE G – ENDOWMENTS - continued

In accordance with UPMIFA, MEI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of MEI, and (7) MEI’s investment policies.

MEI makes distributions from income earned on the endowment for the following purposes:

- Annual award, the “Issam M. Fares Award for Excellence”, and keynote speaker expenses at the MEI annual conference banquet and award ceremony (“Fares Award”)
- Support for MEI Library

MEI makes distributions from income earned on the endowment funds for the above purposes using the total return method. Under this method, distributions consist of net investment income and may, under certain circumstances, include a portion of cumulative realized and unrealized gains. The Board of Governors approves the spending rate of 4% per annum of the corpus of the Fares Award endowment and 4% per annum of the corpus of the Library endowment.

The fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA require MEI to retain as a fund of perpetual duration. As of December 31, 2019 and 2018, there were no deficiencies in the endowment.

MEI’s endowment net assets consist of the following as of December 31, 2019:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Ending</u> <u>Balance</u>
Library endowment:			
Original donor-restricted gift amount and amounts required to be retained by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Portion subject to appropriation	-	539,235	539,235
Fares Award endowment:			
Original donor-restricted gift amount and amounts required to be retained by donor	-	1,500,000	1,500,000
Portion subject to appropriation	-	739,356	739,356
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 3,778,591</u>	<u>\$ 3,778,591</u>

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

NOTE G – ENDOWMENTS - continued

Changes in the endowment net assets for the year ended December 31, 2019, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2018	\$ -	\$ 3,156,624	\$3,156,624
Interest and dividends (less fees of \$6,554)	-	91,147	91,147
Net appreciation in fair value of investments	-	530,820	530,820
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 3,778,591</u>	<u>\$3,778,591</u>

MEI's endowment net assets consist of the following as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Ending Balance</u>
Library endowment:			
Original donor-restricted gift amount and amounts required to be retained by donor	\$ -	\$ 1,000,000	\$1,000,000
Portion subject to appropriation	-	285,870	285,870
Fares Award endowment:			
Original donor-restricted gift amount and amounts required to be retained by donor	-	1,500,000	1,500,000
Portion subject to appropriation	-	370,754	370,754
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 3,156,624</u>	<u>\$3,156,624</u>

Changes in the endowment net assets for the year ended December 31, 2018, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2017	\$ -	\$ 3,354,286	\$3,354,286
Interest and dividends (less fees of \$7,207)	-	79,830	79,830
Net depreciation in fair value of investments	-	(277,492)	(277,492)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 3,156,624</u>	<u>\$3,156,624</u>

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NOTE H - BOARD DESIGNATED SPECIAL PURPOSE FUND

By motion passed by the Board of Governors of MEI in September 1995, the investments professionally managed for MEI are designated for special purposes to be determined by the board. In October 2016, MEI received an unrestricted contribution of \$20,000,000, which was designated by the Board of Governors to be used for its capital campaign to build a new building for general operations.

The Board Designated Special Purpose Fund consists of the following on December 31:

	<u>2019</u>	<u>2018</u>
Capital campaign	\$ 1,371,790	\$ 8,352,976
Special purposes	9,648,346	8,102,527
Total	<u>\$ 11,020,136</u>	<u>\$ 16,455,503</u>

NOTE I - BENEFICIAL INTEREST IN PERPETUAL TRUST

In 2012, MEI became the current beneficiary of a charitable trust established by the William Carter and Marlys Burdett Scholarship Trust (the "Trust"). The funds are held and managed by a third-party trustee whose objective is to preserve and enhance the trust corpus as well as to generate income on a continuum basis. As such, MEI has no control in the manner in which the trust funds are invested. The income from the Trust is to be used to provide financial assistance, including, but not limited to, scholarships, fellowships, transportation, and living expenses to enable foreign students from Turkey and other Arab countries to study at educational institutions, primarily in the United States. Currently, the anticipated amount of annual income distributions for scholarships is \$32,000, which could change depending on the program's needs and endowment earnings. As of December 31, 2019 and 2018, the fair value of investments totaled \$1,305,032 and \$1,177,232, respectively.

The original principal of the Trust and beneficial interest are included as net assets with donor restrictions in the statements of activities.

MEI's beneficial interest in perpetual trust consist of the following as of December 31, 2019:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Principal of the trust	\$ -	\$ 1,050,862	\$ 1,050,862
Beneficial interest in perpetual trust	-	254,170	254,170
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 1,305,032</u>	<u>\$ 1,305,032</u>

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(continued)

NOTE I - BENEFICIAL INTEREST IN PERPETUAL TRUST - continued

Changes in beneficial interest in perpetual trust consist of the following as of December 31, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning fair value, 1/1/2019	\$ -	\$ 1,177,232	\$ 1,177,232
Distributions	-	(45,703)	(45,703)
Interest and dividends (less fee of \$6,768)	-	22,581	22,581
Net appreciation in fair value of investments	-	150,922	150,922
Ending fair value, 12/31/2019	<u>\$ -</u>	<u>\$ 1,305,032</u>	<u>\$ 1,305,032</u>

MEI's beneficial interest in perpetual trust consist of the following as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Principal of the trust	\$ -	\$ 1,050,862	\$ 1,050,862
Beneficial interest in perpetual trust	-	126,370	126,370
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,177,232</u>	<u>\$ 1,177,232</u>

Changes in beneficial interest in perpetual trust consist of the following as of December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning fair value, 1/1/2018	\$ -	\$ 1,267,537	\$ 1,267,537
Distributions	-	(32,000)	(32,000)
Interest and dividends (less fee of \$6,254)	-	23,091	23,091
Net depreciation in fair value of investments	-	(81,396)	(81,396)
Ending fair value, 12/31/2018	<u>\$ -</u>	<u>\$ 1,177,232</u>	<u>\$ 1,177,232</u>

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NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of December 31, 2019 and 2018:

	2019	2018
Beneficial interest in perpetual trust - scholarships	\$ 1,305,032	\$ 1,177,232
MEI annual conference, award and speaker	2,239,356	1,870,754
Support for the MEI Library	1,539,235	1,285,870
Total	\$ 5,083,623	\$ 4,333,856

NOTE K - LEASE COMMITMENTS

In December 2016, MEI entered into a two year lease agreement for office space. The lease became effective on February 1, 2017, which expired on May 31, 2019. The lease includes a 4% per annum escalation clause. MEI made an advanced payment for the second year's lease in the amount of \$470,000, and a portion is included in prepaid expenses. Occupancy for the years ended December 31, 2019 and 2018, totaled \$466,258 and \$624,909, respectively.

NOTE L – SUBLEASE INCOME

MEI subleases office space on a month-to-month basis. Rental income for the years ended December 31, 2019 and 2018, totaled \$36,464 and \$30,978, respectively.

NOTE M - RETIREMENT PLAN

MEI established a qualified 403(b) Savings Plan covering eligible employees. MEI contributes seven and one half percent of salaries up to \$25,000, and six percent of salaries over \$25,000 on behalf of each participant. MEI's contributions for the years ended December 31, 2019 and 2018, totaled \$116,289 and \$125,975, respectively.

NOTE N - SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through November 10, 2020, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required additional recognition or disclosure.