

**THE MIDDLE EAST INSTITUTE**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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.

### **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, 2018 and 2017, 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.

*James Maruca & McQuade PA*

Washington, DC  
April 9, 2019

**THE MIDDLE EAST INSTITUTE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

	2018	2017
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 488,083	\$ 942,791
Accounts receivable	138,351	94,772
Grants and contributions receivable	663,716	703,036
Prepaid expenses	195,376	615,943
Total Current Assets	1,485,526	2,356,542
<b>PROPERTY AND EQUIPMENT, NET</b>	9,242,791	3,732,177
<b>OTHER ASSETS</b>		
Investments in board designated account	16,455,503	22,724,405
Investments for endowment	3,156,624	3,354,286
Investments in beneficial interest in perpetual trust	1,177,232	1,267,537
Total Other Assets	20,789,359	27,346,228
<b>TOTAL ASSETS</b>	\$ 31,517,676	\$ 33,434,947
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 821,898	\$ 624,735
Accrued expenses	72,788	183,750
Deferred revenue	495,509	158,504
Total Liabilities	1,390,195	966,989
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	9,338,122	4,703,347
Board designated	16,455,503	22,724,405
Total without donor restrictions	25,793,625	27,427,752
With donor restrictions	4,333,856	5,040,206
Total Net Assets	30,127,481	32,467,958
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 31,517,676	\$ 33,434,947

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
<b>REVENUE AND SUPPORT</b>			
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	<u>4,517,636</u>	<u>(347,462)</u>	<u>4,170,174</u>
<b>EXPENSES</b>			
<b>Program services:</b>			
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	<u>4,281,620</u>	<u>-</u>	<u>4,281,620</u>
<b>Support services:</b>			
Fundraising	516,771	-	516,771
General and administrative	645,485	-	645,485
Total Support Services	<u>1,162,256</u>	<u>-</u>	<u>1,162,256</u>
Total Expenses	<u>5,443,876</u>	<u>-</u>	<u>5,443,876</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(926,240)	(347,462)	(1,273,702)
<b>OTHER CHANGES</b>			
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	<u>(707,887)</u>	<u>(358,888)</u>	<u>(1,066,775)</u>
<b>CHANGE IN NET ASSETS</b>	(1,634,127)	(706,350)	(2,340,477)
<b>NET ASSETS, beginning of year</b>	<u>27,427,752</u>	<u>5,040,206</u>	<u>32,467,958</u>
<b>NET ASSETS, end of year</b>	<u>\$ 25,793,625</u>	<u>\$ 4,333,856</u>	<u>\$ 30,127,481</u>

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

**THE MIDDLE EAST INSTITUTE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 1,743,986	\$ -	\$ 1,743,986
Grants	5,001	1,613,390	1,618,391
Membership dues	32,158	-	32,158
Center for Policy Studies	582,467	-	582,467
Center for Education	303,614	-	303,614
Interest and dividends, net	235,281	85,267	320,548
Rental and other income	58,511	-	58,511
In-kind contribution	37,762	-	37,762
Net assets released from restrictions	1,947,115	(1,947,115)	-
Total Revenue and Support	<u>4,945,895</u>	<u>(248,458)</u>	<u>4,697,437</u>
<b>EXPENSES</b>			
<b>Program services:</b>			
Center for Policy Studies	2,446,271	-	2,446,271
Center for Arts and Culture	1,595,196	-	1,595,196
Center for Education	528,771	-	528,771
Communications	287,272	-	287,272
Total Program Services	<u>4,857,510</u>	<u>-</u>	<u>4,857,510</u>
<b>Support services:</b>			
Fundraising	400,172	-	400,172
General and administrative	509,277	-	509,277
Total Support Services	<u>909,449</u>	<u>-</u>	<u>909,449</u>
Total Expenses	<u>5,766,959</u>	<u>-</u>	<u>5,766,959</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(821,064)	(248,458)	(1,069,522)
<b>OTHER CHANGES</b>			
Net appreciation in fair value of board designated investments	643,728	-	643,728
Net appreciation in fair value of endowment investments	-	386,174	386,174
Net appreciation in beneficial interest in perpetual trust	-	128,809	128,809
Loss on disposal of property and equipments	(142,218)	-	(142,218)
Total Other Changes	<u>501,510</u>	<u>514,983</u>	<u>1,016,493</u>
<b>CHANGE IN NET ASSETS</b>	(319,554)	266,525	(53,029)
<b>NET ASSETS, beginning of year</b>	<u>27,747,306</u>	<u>4,773,681</u>	<u>32,520,987</u>
<b>NET ASSETS, end of year</b>	<u>\$ 27,427,752</u>	<u>\$ 5,040,206</u>	<u>\$ 32,467,958</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	\$ 2,972,191	\$ 545,476	\$ 400,962	\$ 362,991	\$ 4,281,620	\$ 516,771	\$ 645,485	\$ 1,162,256	\$ 5,443,876	

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



**THE MIDDLE EAST INSTITUTE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	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	\$ 1,195,514	\$ 556,467	\$ 311,631	\$ 149,661	\$ 2,213,273	\$ 183,339	\$ 157,614	\$ 340,953	\$ 2,554,226	
Employee benefits	184,522	62,625	21,580	21,099	289,826	18,601	26,048	44,649	334,475	
Payroll taxes	79,208	51,971	24,833	12,095	168,107	14,424	11,190	25,614	193,721	
Subtotal Personnel	1,459,244	671,063	358,044	182,855	2,671,206	216,364	194,852	411,216	3,082,422	
Advertising	1,414	45,480	1,732	470	49,096	457	404	861	49,957	
Bank charges	6,812	842	13,399	152	21,205	213	1,172	1,385	22,590	
Depreciation and amortization	51,028	33,275	11,030	5,992	101,325	8,347	46,368	54,715	156,040	
Dues and subscriptions	2,577	800	1,419	7,894	12,690	3,690	1,116	4,806	17,496	
Facilities, food and beverages	352,403	436,486	1,856	293	791,038	27,725	2,269	29,994	821,032	
Insurance	15,168	9,891	8,329	1,781	35,169	2,481	13,781	16,262	51,431	
Occupancy	182,598	119,070	41,986	21,443	365,097	29,870	165,919	195,789	560,886	
Miscellaneous	-	-	-	-	-	-	98	98	98	
Postage and delivery	2,501	2,378	514	153	5,546	214	1,187	1,401	6,947	
Printing and publications	41,433	20,942	798	414	63,587	19,175	2,690	21,865	85,452	
Professional services	189,048	109,735	57,112	21,894	377,789	69,676	35,737	105,413	483,202	
Repairs and maintenance	4,467	2,913	965	525	8,870	731	4,058	4,789	13,659	
Supplies and equipment	40,982	22,425	18,929	3,867	86,203	10,271	28,504	38,775	124,978	
Telecommunications	12,359	7,960	2,670	39,330	62,319	2,378	11,092	13,470	75,789	
Travel and entertainment	84,237	111,936	9,988	209	206,370	8,580	30	8,610	214,980	
Total	\$ 2,446,271	\$ 1,595,196	\$ 528,771	\$ 287,272	\$ 4,857,510	\$ 400,172	\$ 509,277	\$ 909,449	\$ 5,766,959	

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

**THE MIDDLE EAST INSTITUTE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,340,477)	\$ (53,029)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	347,378	156,040
Loss on disposal of property and equipment	-	(142,218)
Net depreciation (appreciation) in fair value on investments	1,066,775	(1,158,711)
Change in beneficial interest in perpetual trust	90,305	(145,381)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(43,579)	(10,242)
Prepaid expenses	420,567	(59,998)
Grants and contributions receivable	39,320	(686,786)
Security deposits	-	1,000
Increase (decrease) in liabilities:		
Accounts payable	197,163	403,982
Accrued expenses	(110,962)	32,669
Deferred revenue	337,005	1,015
Net Cash Provided by (Used for) Operating Activities	3,495	(1,661,659)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(5,857,992)	(1,907,212)
Proceeds from sale of investments	8,563,522	32,282,845
Purchases of investments	(3,073,428)	(51,212,147)
Net Cash Used for Investing Activities	(367,898)	(20,836,514)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Beneficial interest in perpetual trust	(90,305)	145,381
Net Cash (Used for) Provided by Financing Activities	(90,305)	145,381
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(454,708)	(22,352,792)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	942,791	23,295,583
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 488,083	\$ 942,791

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

**THE MIDDLE EAST INSTITUTE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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 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.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(continued)

**NOTE A - ORGANIZATION AND NATURE OF BUSINESS** - continued

Program Services (continued)

**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.

**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

For the year ended December 31, 2018, MEI adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net assets classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

MEI also adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) No. 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions, and to determine whether a contribution is conditional. A key change required by the ASU is the clarification that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Adoption of New Accounting Pronouncement (continued)

The ASU is effective for annual periods beginning after December 15, 2018 for most resource recipients, although, MEI has early adopted the provisions for the year ended December 31, 2018. The ASU has been applied on the modified prospective basis, whereby it is applied to all agreements entered into after the effective date, as well as those that were existing at the effective date, but only to the portion of the existing agreements not previously recognized.

Financial Statement Presentation

In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit Organizations*, net assets, revenue, gains and losses are classified and reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets 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.

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. Annually, management determines if an allowance for doubtful accounts is necessary based upon 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 is deemed necessary.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized and realized gains and losses are included in the statement of activities in the period in which such changes occur. Interest and dividends are recorded when earned. 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.

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.

Unconditional contributions and other support are recognized in the period in which the promise is made. MEI reports grants and gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Expirations of donor restrictions are reclassified from donor restricted net assets to net assets without donor restrictions.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. MEI reports noncash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, MEI reports expirations of donor restrictions when the donated long-lived assets are acquired or placed in service. Contributions with donor restrictions are met in the same reporting period as the contribution is received are reported as without donor restrictions support.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Revenue Recognition (continued)

Revenue from membership dues is recognized over the applicable membership period, generally one year.

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 to 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.

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.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation, which included netting investment fees against investment income. The reclassification had no effect on the previously reported net assets or change in net assets.

**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, 2018 and 2017, 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, 2015 through 2017 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

**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. MEI has various sources of liquidity at its disposal, including cash and cash equivalents of nearly \$500,000. Timing of revenue receipts also ensures the availability of necessary operational funds. Sources of liquidity available to MEI include financial assets consisting of cash, accounts receivable, grants 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.



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**NOTE D – AVAILABLE RESOURCES AND LIQUIDITY – continued**

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 Center for Policy Studies, Center for Arts and culture, Center for Education, and Communications, as well as services undertaken to support those programs, to be general operating expenditures.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 488,083	\$ 942,791
Accounts receivable	138,351	94,772
Grants and contributions receivable	663,716	703,036
Investments convertible to cash in next 12 months	<u>16,455,503</u>	<u>22,724,405</u>
Total Financial Assets	17,745,653	24,465,004
Less: Board designated reserves	<u>(16,455,503)</u>	<u>(22,724,405)</u>
Total Financial Assets Available to Meet Cash		
Needs for General Expenditures within One Year	<u>\$ 1,290,150</u>	<u>\$ 1,740,599</u>

**NOTE E - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 1,510,718	\$ 1,510,718
Office equipment and furniture	931,243	863,152
Land	334,115	334,115
Construction - work in progress	<u>8,694,293</u>	<u>2,904,391</u>
	11,470,369	5,612,376
Less accumulated depreciation and amortization	<u>(2,227,578)</u>	<u>(1,880,199)</u>
Property and Equipment, Net	<u>\$ 9,242,791</u>	<u>\$ 3,732,177</u>

Depreciation and amortization expense totaled \$347,378 and \$156,040 for the years ended December 31, 2018 and 2017, respectively.

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**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.

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.

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**NOTE F - FAIR VALUE MEASUREMENTS** – continued

The following tables present MEI's fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2018 and 2017:

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
<b>Total Assets at Fair Value</b>	<b>\$ 13,746,585</b>	<b>\$ 7,042,774</b>	<b>\$ -</b>	<b>\$ 20,789,359</b>

Assets at Fair Value as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,641,961	\$ -	\$ -	\$ 2,641,961
Common and preferred stock	290,829	-	-	290,829
U.S. treasury bonds	-	12,590,906	-	12,590,906
Corporate bonds	-	25,318	-	25,318
Certificates of deposit	-	695,737	-	695,737
Money market funds	1,092,277	-	-	1,092,277
Mutual funds:				
Fixed income	3,776,053	-	-	3,776,053
Equity	5,937,236	-	-	5,937,236
Exchange traded funds	295,911	-	-	295,911
<b>Total Assets at Fair Value</b>	<b>\$ 14,034,267</b>	<b>\$ 13,311,961</b>	<b>\$ -</b>	<b>\$ 27,346,228</b>

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**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 fund, provided asset allocation guidelines, and established criteria to monitor and evaluate the performance results of the fund’s 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).

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, 2018 and 2017, there were no deficiencies in the endowment.

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**NOTE G – ENDOWMENTS – continued**

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 under SPMIFA	-	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 under SPMIFA	-	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	-	(277,492)	(277,492)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 3,156,624</u>	<u>\$ 3,156,624</u>

MEI's endowment net assets consist of the following as of December 31, 2017:

	<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 under SPMIFA	-	366,390	366,390
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 under SPMIFA	-	487,896	487,896
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 3,354,286</u>	<u>\$ 3,354,286</u>

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**NOTE G – ENDOWMENTS – continued**

Changes in the endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2016	\$ -	\$ 2,900,799	\$ 2,900,799
Interest and dividends (Less fees of \$17,882)	-	67,313	67,313
Net appreciation in fair value	-	386,174	386,174
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 3,354,286</u>	<u>\$ 3,354,286</u>

**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 at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital campaign	\$ 8,352,976	\$ 16,638,782
Special purposes	8,102,527	6,085,623
Total	<u>\$ 16,455,503</u>	<u>\$ 22,724,405</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 occurred in the years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017, the fair value of investments totaled \$1,177,232 and \$1,267,537, respectively.

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

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**NOTE I - BENEFICIAL INTEREST IN PERPETUAL TRUST**– continued

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>

MEI's beneficial interest in perpetual trust consist of the following as of December 31,2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Principal of the trust	\$ -	\$ 1,050,862	\$ 1,050,862
Beneficial interest in perpetual trust	-	216,675	216,675
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,267,537</u>	<u>\$ 1,267,537</u>

Changes in beneficial interest in perpetual trust consist of the following as of December 31,2017, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning fair value 1/1/2017	\$ -	\$ 1,152,774	\$ 1,152,774
Distributions	-	(32,000)	(32,000)
Interest and dividends (less fee of \$7,777)	-	17,954	17,954
Net appreciation in fair value of investments	-	128,809	128,809
Ending fair value, 12/31/2017	<u>\$ -</u>	<u>\$ 1,267,537</u>	<u>\$ 1,267,537</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, 2018 and 2017:

	2018	2017
Education and outreach	\$ -	\$ 418,383
Beneficial interest in perpetual trust - scholarships	1,177,232	1,267,537
MEI annual conference, award and speaker	1,870,754	1,987,896
Support for the MEI Library	1,285,870	1,366,390
Total	\$ 4,333,856	\$ 5,040,206

**NOTE K - LEASE COMMITMENTS**

MEI leases office equipment under four separate operating lease agreements, which expired at the end of 2015. After the leases expired, MEI continued to lease the office equipment on a month-to-month basis. In April 2017, MEI renewed one of its existing office equipment leases for an additional term of 63 months at monthly fee of \$50. For the years ended December 31, 2018 and 2017, rental expense, which includes insurance, totaled \$4,136 and \$7,293, respectively.

In December 2016, MEI entered into a two year lease agreement for office space. The lease became effective on February 1, 2017, which expires 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.

**NOTE L – SUBLEASE INCOME**

MEI subleases office space on a month-to-month basis. Rental income for the years ended December 31, 2018 and 2017, totaled \$26,468 and \$32,437, 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, 2018 and 2017, totaled \$125,975 and \$123,076, respectively.



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**NOTE N - SUBSEQUENT EVENTS**

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through April 9, 2019, 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.