

THE MIDDLE EAST INSTITUTE

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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 audits 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, 2020 and 2019, 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.

Jane Marcus & McQuade PA

Washington, DC
June 17, 2021

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019**

	2020	2019
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,079,706	\$ 301,604
Accounts receivable	78,244	133,536
Net depreciation in fair value of investments	-	1,057,000
Prepaid expenses	80,869	56,912
Total Current Assets	2,238,819	1,549,052
PROPERTY AND EQUIPMENT, NET	14,855,580	15,080,573
OTHER ASSETS		
Investments in board designated account	11,116,442	11,020,136
Investments - endowment funds	4,285,546	3,778,591
Investments in beneficial interest in perpetual trust	1,366,208	1,305,032
Total Other Assets	16,768,196	16,103,759
TOTAL ASSETS	\$ 33,862,595	\$ 32,733,384
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 116,155	\$ 438,689
Accrued expenses	119,706	145,805
Deferred revenue	1,324,399	986,265
Total Current Liabilities	1,560,260	1,570,759
NET ASSETS		
Without donor restrictions:		
Undesignated	15,534,139	15,058,866
Board designated	11,116,442	11,020,136
Total without donor restrictions	26,650,581	26,079,002
With donor restrictions	5,651,754	5,083,623
Total Net Assets	32,302,335	31,162,625
TOTAL LIABILITIES AND NET ASSETS	\$ 33,862,595	\$ 32,733,384

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

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 3,119,672	\$ -	\$ 3,119,672
Grants	1,370,775	70,779	1,441,554
Net depreciation in fair value of investments	29,290	-	29,290
Change in beneficial interest in perpetual trust	275,769	-	275,769
Center for Education	347,736	-	347,736
Interest and dividends, net	194,263	89,992	284,255
Rental and other income	54,561	-	54,561
Net assets released from restrictions	114,928	(114,928)	-
Total Revenue and Support	<u>5,506,994</u>	<u>45,843</u>	<u>5,552,837</u>
EXPENSES			
Program services:			
Center for Policy Studies	3,240,154	-	3,240,154
Center for Arts and Culture	528,659	-	528,659
Center for Education	491,727	-	491,727
Communications	427,992	-	427,992
Total Program Services	<u>4,688,532</u>	<u>-</u>	<u>4,688,532</u>
Support services:			
Fundraising	655,054	-	655,054
General and administrative	838,849	-	838,849
Total Support Services	<u>1,493,903</u>	<u>-</u>	<u>1,493,903</u>
Total Expenses	<u>6,182,435</u>	<u>-</u>	<u>6,182,435</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(675,441)	45,843	(629,598)
OTHER CHANGES			
Net appreciation in fair value of board designated investments	1,247,020	-	1,247,020
Net appreciation in fair value of endowment investments	-	435,060	435,060
Net appreciation in beneficial interest in perpetual trust	-	87,228	87,228
Total Other Changes	<u>1,247,020</u>	<u>522,288</u>	<u>1,769,308</u>
CHANGE IN NET ASSETS	571,579	568,131	1,139,710
NET ASSETS, beginning of year	<u>26,079,002</u>	<u>5,083,623</u>	<u>31,162,625</u>
NET ASSETS, end of year	<u>\$ 26,650,581</u>	<u>\$ 5,651,754</u>	<u>\$ 32,302,335</u>

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
Net depreciation in fair value of investments	32,555	-	32,555
Change in beneficial interest in perpetual trust	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	4,464,319	68,028	4,532,347
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	4,207,988	-	4,207,988
Support services:			
Fundraising	526,500	-	526,500
General and administrative	767,097	-	767,097
Total Support Services	1,293,597	-	1,293,597
Total Expenses	5,501,585	-	5,501,585
CHANGE IN NET ASSETS FROM OPERATIONS	(1,037,266)	68,028	(969,238)
OTHER CHANGES			
Net depreciation in fair value of board designated investments	1,322,643	-	1,322,643
Net depreciation in fair value of endowment investments	-	530,820	530,820
Net depreciation in beneficial interest in perpetual trust	-	150,919	150,919
Total Other Changes	1,322,643	681,739	2,004,382
CHANGE IN NET ASSETS	285,377	749,767	1,035,144
NET ASSETS, beginning of year	25,793,625	4,333,856	30,127,481
NET ASSETS, end of year	\$ 26,079,002	\$ 5,083,623	\$ 31,162,625

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

THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	PROGRAM SERVICES				SUPPORT SERVICES				Total Expenses
	Center for Policy Studies	Center for Arts and Culture	Center for Education	Communications	Total Program Services	Fundraising	General and Administrative	Total Support Services	
Personnel:									
Salaries	\$ 1,675,440	\$ 348,558	\$ 312,452	\$ 227,712	\$ 2,564,162	\$ 335,622	\$ 174,100	\$ 509,722	\$ 3,073,884
Employee benefits	219,494	19,865	16,425	16,373	272,157	35,958	37,336	73,294	345,451
Payroll taxes	120,017	20,920	17,785	19,436	178,158	27,786	28,875	56,661	234,819
Subtotal Personnel	2,014,951	389,343	346,662	263,521	3,014,477	399,366	240,311	639,677	3,654,154
Advertising	9,243	608	14,950	14,597	39,398	5,615	2,886	8,501	47,899
Bad debt	1,000	-	1,050	-	2,050	-	6,379	6,379	8,429
Bank charges	4,924	67	11,690	-	16,681	-	6,022	6,022	22,703
Depreciation	236,908	39,485	21,936	39,485	337,814	39,485	61,420	100,905	438,719
Dues and subscriptions	3,519	48	6,433	47,459	57,459	706	2,360	3,066	60,525
Facilities, food and beverages	79,443	22,590	119	149	102,301	4,573	702	5,275	107,576
Insurance	-	2,200	5,961	-	8,161	-	64,650	64,650	72,811
Interest	-	-	-	-	-	-	2,631	2,631	2,631
Occupancy	69,924	11,654	7,094	11,654	100,326	11,654	18,128	29,782	130,108
Miscellaneous	-	-	-	-	-	-	176	176	176
Postage and delivery	1,329	11,950	12	27	13,318	84	2,098	2,182	15,500
Printing and publications	20,952	11,518	33	72	32,575	2,962	5,372	8,334	40,909
Professional services	741,935	34,854	63,730	29,615	870,134	185,317	273,147	458,464	1,328,598
Repairs and maintenance	-	-	927	-	927	-	20,657	20,657	21,584
Supplies and equipment	7,332	-	6,563	8,318	22,213	2,697	72,865	75,562	97,775
Telecommunications	10,721	362	-	13,095	24,178	-	58,139	58,139	82,317
Travel and entertainment	37,973	3,980	4,567	-	46,520	2,595	906	3,501	50,021
Total	<u>\$ 3,240,154</u>	<u>\$ 528,659</u>	<u>\$ 491,727</u>	<u>\$ 427,992</u>	<u>\$ 4,688,532</u>	<u>\$ 655,054</u>	<u>\$ 838,849</u>	<u>\$ 1,493,903</u>	<u>\$ 6,182,435</u>

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	\$ 1,307,933	\$ 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	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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,139,710	\$ 1,035,144
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	438,719	202,028
Net depreciation in fair value of investments	(1,769,308)	(2,004,382)
Change in beneficial interest in perpetual trust	(61,176)	(127,800)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	55,292	4,815
Prepaid expenses	(23,957)	138,464
Grants and contributions receivable	1,057,000	(393,284)
Increase (decrease) in liabilities:		
Accounts payable	(322,534)	(383,209)
Accrued expenses	(26,099)	73,017
Deferred revenue	338,134	490,756
Net Cash Provided by (Used for) Operating Activities	825,781	(964,451)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(213,726)	(6,039,810)
Proceeds from sale of investments	8,565,882	14,150,993
Purchases of investments	(7,461,011)	(7,461,011)
Net Cash Provided by Investing Activities	891,145	650,172
CASH FLOWS FROM FINANCING ACTIVITIES		
Beneficial interest in perpetual trust	61,176	127,800
Net Cash Provided by Financing Activities	61,176	127,800
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,778,102	(186,479)
CASH AND CASH EQUIVALENTS, beginning of year	301,604	488,083
CASH AND CASH EQUIVALENTS, end of year	\$ 2,079,706	\$ 301,604

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

**THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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.

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.

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 and communicate their findings through MEI's communication channels and 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 in Washington, D.C. has become a destination 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, 2020 AND 2019
(continued)

NOTE A – ORGANIZATION AND NATURE OF BUSINESS – continued

Communications: 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.

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit Entities*. In accordance with topic ASU NO. 2016-14, net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. 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 in perpetuity by MEI. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, MEI considers all highly liquid funds including 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, 2020 AND 2019
(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 accounts 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 statements 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 statements 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

Grants and Contributions

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 MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition (continued)

Grants and Contributions (continued)

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.

Center for Policy Studies

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

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

Membership Dues

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 without donor restriction contributions made to MEI, and are recognized as revenue when received.

Rental Income

Rental income is derived from a non-profit that rents office space located in MEI's building. Revenue is recognized when earned. Any rental payments received in advance are recorded as deferred revenue on statements of financial position.

Other Income

Other income is derived from publication and book sales, which are recognized as revenue when at the time of sale. For the years ended December 31, 2020 and 2019, publication and books sales totaled \$8,841 and \$15,871, respectively.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 from General and Administrative Activities

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, amortization, and occupancy, as well as salaries and related cost, which are allocated on the basis of estimates of time and effort expended.

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, 2020 and 2019, 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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE C – INCOME TAXES - continued

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, 2017 through 2019 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. 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. MEI also has a line of credit in the amount of \$6,000,000 that could be made available for use, 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.

The following table reflects MEI's financial assets as of December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 2,079,706	\$ 301,604
Accounts receivable	78,244	133,536
Grants and contributions receivable	-	1,057,000
Investments in board designated account	11,116,442	11,020,136
Investments - endowment funds	4,285,546	3,778,591
Investments in beneficial interest in perpetual trust	1,366,208	1,305,032
Total Financial Assets	18,926,146	17,595,899
Less: board designated reserves	(11,116,442)	(11,020,136)
Less: net assets encumbered by donor restrictions - perpetual in nature	(5,651,754)	(5,083,623)
Total Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ 2,157,950	\$ 1,492,140

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE E – PROPERTY AND EQUIPMENT

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

	2020	2019
Building and improvements	\$ 16,553,009	\$ 16,339,283
Office equipment and furniture	836,781	836,781
Land	334,115	334,115
	17,723,905	17,510,179
Less: accumulated depreciation	(2,868,325)	(2,429,606)
Property and Equipment, Net	\$ 14,855,580	\$ 15,080,573

Depreciation and amortization expense related to property and equipment totaled \$438,719 and \$202,028 for the years ended December 31, 2020 and 2019, 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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NOTES TO THE FINANCIAL STATEMENTS
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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 stock 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 presents MEI’s fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2020:

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 206,749	\$ -	\$ -	\$ 206,749
Common and preferred stock	406,572	-	-	406,572
Corporate bonds	-	25,619	-	25,619
Certificates of deposit	-	218,447	-	218,447
Mutual funds:				
Fixed income	5,619,196	-	-	5,619,196
Equity	9,990,767	-	-	9,990,767
Exchange traded funds	300,846	-	-	300,846
Total Assets at Fair Value	\$16,524,130	\$ 244,066	\$ -	\$16,768,196

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE F – FAIR VALUE MEASUREMENTS - continued

The following table presents 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	\$14,588,955	\$ 1,514,804	\$ -	\$16,103,759

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).

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(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 ("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, 2020 and 2019, there were no deficiencies in the endowment.

MEI's endowment net assets consists of the following as of December 31, 2020:

	<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	-	745,748	745,748
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	-	1,039,798	1,039,798
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 4,285,546</u>	<u>\$ 4,285,546</u>

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE G – ENDOWMENTS - continued

Changes in the endowment net assets for the year ended December 31, 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2019	\$ -	\$ 3,778,591	\$ 3,778,591
Interest and dividends (less fees of \$6,845)	-	71,895	71,895
Net appreciation in fair value of investments	-	435,060	435,060
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 4,285,546</u>	<u>\$ 4,285,546</u>

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

	<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	-	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>

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>

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

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 a contribution without donor restrictions 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:

	2020	2019	
Capital campaign	\$ 32,267	\$ 1,371,790	
Special purposes	11,084,175	9,648,346	
Total	\$ 11,116,442	\$ 11,020,136	

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, 2020 and 2019, the fair value of investments totaled \$1,366,208 and \$1,305,032, 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 consists of the following as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Principal of the trust	\$ -	\$ 1,050,862	\$ 1,050,862
Beneficial interest in perpetual trust	-	315,346	315,346
Balance at December 31, 2020	\$ -	\$ 1,366,208	\$ 1,366,208

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE I – BENEFICIAL INTEREST IN PERPETUAL TRUST - continued

Changes in beneficial interest in perpetual trust consists of the following as of December 31, 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning fair value, 1/1/2020	\$ -	\$ 1,305,032	\$ 1,305,032
Additions	-	70,779	70,779
Distributions	-	(114,928)	(114,928)
Interest and dividends (less fee of \$6,943)	-	18,097	18,097
Net appreciation in fair value of investments	-	87,228	87,228
Ending fair value, 12/31/2020	<u>\$ -</u>	<u>\$ 1,366,208</u>	<u>\$ 1,366,208</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor 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>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

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(continued)

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beneficial interest in perpetual trust - scholarships	\$ 1,366,208	\$ 1,305,032
MEI annual conference, award and speaker	2,539,798	2,239,356
Support for the MEI Library	1,745,748	1,539,235
Total	<u>\$ 5,651,754</u>	<u>\$ 5,083,623</u>

NOTE K – LINE OF CREDIT

MEI has a \$6,000,000 line of credit available from Hingham Savings. The line of credit was established on May 1, 2020. The line of credit is secured by MEI's building, serving as collateral, which is situated at 1761-1763 N Street, NW, Washington, D.C. 20036. The line of credit's interest rate is based off the Wall Street Journal Prime Rate less 0.25%, floating monthly. This rate of interest is capped at 4.50% and floored at 3.00%. The interest rate was 3.00% as of December 31, 2020. The line of credit has a maturity of ten years and expires on April 30, 2030. During 2020, MEI made a security deposit of \$10,000 and withdrew approximately \$35,109 from the line of credit in order to pay for origination fees, which have been capitalized and will be amortized over the life of the line of credit. As of December 31, 2020, the unamortized line of credit origination fees had a total debit balance of \$7,498, which was included in prepaid expenses on the statements of financial position. For the year ended December 31, 2020, the amortized loan fees totaled \$2,631 and was charged to interest expense.

NOTE L – LEASE COMMITMENTS

In December 2016, MEI entered into a two year lease agreement for office space while its building was under renovations. The lease became effective on February 1, 2017, and was set to expire on May 31, 2019. However, on January 1, 2019, an amendment was made to the lease, which extended the lease agreement until August 11, 2019. The lease included a 4% per annum escalation clause. After the lease terminated, MEI moved into its renovated building.

During January 2020, MEI entered into an eleven month rental agreement for apartment space in connection to its Frontier Europe Program. The agreement expired in November 2020.

Occupancy for the years ended December 31, 2020 and 2019, totaled \$130,108 and \$466,258, respectively.

THE MIDDLE EAST INSTITUTE
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(continued)

NOTE M – SUBLEASE INCOME

MEI subleases office space on a month-to-month basis. Rental income for the years ended December 31, 2020 and 2019, totaled \$45,720 and \$36,464, respectively. These amounts are included in rental and other income in the accompanying statements of activities for the years then ended.

NOTE N – RETIREMENT PLAN

Effective January 1, 2009, MEI amended and restated the Middle East Institute 403(b) DC Plan (the "Plan"). The Plan was originally adopted on March 3, 1974. Employees are eligible to participate in the Plan and receive employer contributions if they have completed at least one consecutive year of service. 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, 2020 and 2019, totaled \$138,752 and \$116,289, respectively.

NOTE O – PPP LOAN

On May 3, 2020, MEI secured \$430,133 with Capital One (the "Lender") under the Small Business Administration's Paycheck Protection Program ("PPP") that authorized forgivable loans to small businesses. This loan can be used to cover certain expenses during the COVID-19 crisis. The loan amounts may be forgiven if the proceeds are used to cover payroll costs, rent, certain mortgage interest and utility costs over a period specified in the loan document after the loan is made. If not used for the described purpose, the loan is due on May 3, 2022, along with interest calculated at a rate of 1% per annum. On January 25, 2021, the loan was forgiven in full and the entire amount of \$430,133 has been recognized as grants revenue for the year ended December 31, 2020.

NOTE P – SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through June 17, 2021, 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.