

THE MIDDLE EAST INSTITUTE

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2013 AND 2012

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 20



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 ("MEI") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

MEI's 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 audits to obtain reasonable assurance about whether the financial statements are free of 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ribis, Jones Maresca, P.A.

Columbia, MD
April 21, 2014

THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,582,327	\$ 673,810
Board designated cash (Note 8)	187,747	85,772
Total cash and cash equivalents	1,770,074	759,582
Accounts receivable	310,411	48,804
Grants and contributions receivable (Note 4)	260,240	77,652
Contribution receivable for endowment (Notes 4 and 7)	300,000	300,000
Prepaid expenses	13,047	339
Total current assets	2,653,772	1,186,377
PROPERTY AND EQUIPMENT		
Property and equipment, net (Note 5)	926,223	905,740
OTHER ASSETS		
Investments in board designated account (Notes 6 and 8)	2,859,465	2,649,423
Investments for endowment (Notes 6 and 7)	2,082,263	1,674,539
Beneficial interest in perpetual trust (Note 9)	1,105,442	1,033,787
Contribution receivable for endowment, net of discount (Notes 4 and 7)	274,042	548,584
Security deposit	15,700	200
Total other assets	6,336,912	5,906,533
TOTAL ASSETS	\$ 9,916,907	\$ 7,998,650
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 420,118	\$ 31,271
Accrued expenses	69,783	72,216
Deferred revenue	150,554	100,927
Total current liabilities	640,455	204,414
NET ASSETS		
Unrestricted net assets		
Undesignated available for operations	1,708,846	1,173,667
Board designated (Note 8)	3,047,212	2,735,195
Total unrestricted net assets	4,756,058	3,908,862
Temporarily restricted net assets (Note 10)	995,936	387,003
Permanently restricted net assets (Note 11)	3,524,458	3,498,371
Total net assets	9,276,452	7,794,236
TOTAL LIABILITIES AND NET ASSETS	\$ 9,916,907	\$ 7,998,650

See independent auditor's report and accompanying notes to financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Public Support				
Contributions	\$ 569,127	\$ -	\$ -	\$ 569,127
Grants and other programs	-	666,099	-	666,099
Endowment contributions	-	-	26,087	26,087
Membership dues	32,190	-	-	32,190
Program Revenue				
Language programs	375,570	-	-	375,570
Sultan Qaboos Cultural Center	-	839,136	-	839,136
Annual conference	401,774	-	-	401,774
<i>The Middle East Journal</i> and publications	225,536	-	-	225,536
Center for Turkish studies	-	28,867	-	28,867
Public policy, outreach, and communications	-	1,500,000	-	1,500,000
Library	1,063	-	-	1,063
Other Income				
Interest and dividends	127,544	-	-	127,544
Rental and other income	35,361	-	-	35,361
Net assets released from restrictions	2,512,411	(2,512,411)	-	-
Total Revenue and Support	<u>4,280,576</u>	<u>521,691</u>	<u>26,087</u>	<u>4,828,354</u>
EXPENSES				
Program services:				
Language programs	366,465	-	-	366,465
<i>The Middle East Journal</i> and publications	278,931	-	-	278,931
Sultan Qaboos Cultural Center	925,223	-	-	925,223
Public policy, outreach, and communications	1,433,161	-	-	1,433,161
Library	89,732	-	-	89,732
Center for Turkish studies	97,894	-	-	97,894
Total program services	<u>3,191,406</u>	<u>-</u>	<u>-</u>	<u>3,191,406</u>
Support services:				
Fundraising	170,280	-	-	170,280
General and administrative	475,521	-	-	475,521
Total support services	<u>645,801</u>	<u>-</u>	<u>-</u>	<u>645,801</u>
Total Expenses	<u>3,837,207</u>	<u>-</u>	<u>-</u>	<u>3,837,207</u>
CHANGE IN NET ASSETS FROM OPERATIONS	443,369	521,691	26,087	991,147
OTHER CHANGES				
Net appreciation in fair value of designated investments	282,002	-	-	282,002
Net appreciation in fair value of endowment investments	121,825	-	-	121,825
Net appreciation in beneficial interest in perpetual trust	-	87,242	-	87,242
Total Other Changes	<u>403,827</u>	<u>87,242</u>	<u>-</u>	<u>491,069</u>
CHANGE IN NET ASSETS	847,196	608,933	26,087	1,482,216
NET ASSETS, beginning of year	<u>3,908,862</u>	<u>387,003</u>	<u>3,498,371</u>	<u>7,794,236</u>
NET ASSETS, end of year	<u>\$ 4,756,058</u>	<u>\$ 995,936</u>	<u>\$ 3,524,458</u>	<u>\$ 9,276,452</u>

See independent auditor's report and accompanying notes to financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Public Support				
Contributions	\$ 495,747	\$ -	\$ -	\$ 495,747
Grants and other programs	-	247,086	-	247,086
Contributions from charitable trust	-	-	1,051,037	1,051,037
Endowment contributions	-	-	33,454	33,454
Membership dues	44,245	-	-	44,245
Program Revenue				
Language programs	401,409	-	-	401,409
Sultan Qaboos Cultural Center	-	599,197	-	599,197
Annual conference	387,703	-	-	387,703
<i>The Middle East Journal</i> and publications	196,163	-	-	196,163
Center for Turkish studies	-	125,812	-	125,812
Library	1,988	-	-	1,988
Other Income				
Interest and dividends	168,848	-	-	168,848
Rental and other income	116,056	-	-	116,056
Change in value of beneficial interest in perpetual trust	-	-	(1,250)	(1,250)
Net assets released from restrictions	1,041,222	(1,041,222)	-	-
Total Revenue and Support	<u>2,853,381</u>	<u>(69,127)</u>	<u>1,083,241</u>	<u>3,867,495</u>
EXPENSES				
Program services:				
Language programs	444,174	-	-	444,174
<i>The Middle East Journal</i> and publications	360,827	-	-	360,827
Sultan Qaboos Cultural Center	638,451	-	-	638,451
Public policy, outreach, and communications	93,500	-	-	93,500
Library	86,766	-	-	86,766
Annual conference	224,488	-	-	224,488
Center for Turkish studies	163,150	-	-	163,150
Other programs	520,639	-	-	520,639
Total program services	<u>2,531,995</u>	<u>-</u>	<u>-</u>	<u>2,531,995</u>
Support services:				
Fundraising	150,561	-	-	150,561
General and administrative	280,966	-	-	280,966
Total support services	<u>431,527</u>	<u>-</u>	<u>-</u>	<u>431,527</u>
Total Expenses	<u>2,963,522</u>	<u>-</u>	<u>-</u>	<u>2,963,522</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(110,141)	(69,127)	1,083,241	903,973
OTHER CHANGES				
Net depreciation in fair value of endowment investments	115,608	-	-	115,608
Net depreciation in fair value of designated investments	240,041	-	-	240,041
Total Other Changes	<u>355,649</u>	<u>-</u>	<u>-</u>	<u>355,649</u>
CHANGE IN NET ASSETS	245,508	(69,127)	1,083,241	1,259,622
NET ASSETS, beginning of year	<u>3,663,354</u>	<u>456,130</u>	<u>2,415,130</u>	<u>6,534,614</u>
NET ASSETS, end of year	<u>\$ 3,908,862</u>	<u>\$ 387,003</u>	<u>\$ 3,498,371</u>	<u>\$ 7,794,236</u>

See independent auditor's report and accompanying notes to financial statements.

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

	PROGRAM SERVICES						SUPPORT SERVICES			
	Middle East Journal Publications	Sultan Qaboos Cultural Center	Public Policy Outreach, and Communications	Library	Center for Turkish Studies	Total Program Services	Fund-Raising	General and Administrative	Total Support Services	Total Expenses
Personnel:										
Salaries	\$ 304,389	\$ 174,962	\$ 212,588	\$ 29,842	\$ 24,419	\$ 1,355,213	\$ 119,370	\$ 260,740	\$ 380,110	\$ 1,735,323
Employee benefits	10,335	27,459	18,122	9,633	8,211	93,089	17,565	24,714	42,279	135,368
Payroll taxes	24,879	13,522	15,857	1,920	4,415	94,712	8,260	19,560	27,820	122,532
Subtotal personnel	339,603	215,943	246,567	41,395	37,045	1,543,014	145,195	305,014	450,209	1,993,223
Advertising	-	-	-	-	19	2,584	140	1,392	1,532	4,116
Bad debt	82	4,713	-	-	-	4,795	-	-	-	4,795
Bank charges	-	1,297	-	-	75	9,178	30	15,571	15,601	24,779
Board meetings	-	-	3,208	-	-	3,208	-	-	-	3,208
Conference and meetings	-	-	285,417	-	25,462	436,454	241	-	241	426,695
Depreciation and amortization	9,600	9,600	16,000	9,600	9,600	54,400	6,396	3,200	9,596	63,996
Dues and subscriptions	550	991	-	-	-	1,541	-	397	397	1,938
Grant expense	-	-	341,036	-	-	341,036	-	-	-	341,036
Insurance	2,800	2,800	-	8,338	2,800	24,488	2,800	2,800	5,600	30,088
Investment fees	-	-	-	6,627	7,992	20,181	-	19,359	19,359	39,540
Occupancy	5,250	5,250	42,415	5,205	5,250	73,870	5,250	9,782	15,032	88,902
Office and support	-	-	-	-	-	-	-	18,640	18,640	18,640
Postage and delivery	1,520	22,012	-	59	401	27,859	3,162	3,500	6,662	34,521
Printing and publications	2,171	7,256	6,580	630	1,681	29,349	748	3,857	4,605	33,954
Professional services	315	-	-	198,408	-	207,723	-	33,075	33,075	240,798
Repairs and maintenance	1,131	2,500	-	24,236	2,500	35,917	-	21,446	21,446	57,363
Research and exhibition	-	-	-	64,174	-	64,174	-	-	-	64,174
Supplies and equipment	795	464	-	48,449	518	52,240	2,800	23,492	26,292	78,532
Telecommunications	2,570	2,000	-	45,800	1,500	52,370	3,500	9,711	13,211	65,581
Travel and entertainment	78	4,105	-	37	5,481	217,025	18	4,285	4,303	221,328
Total	\$ 366,465	\$ 278,931	\$ 925,223	\$ 89,732	\$ 97,894	\$ 3,191,406	\$ 170,280	\$ 475,521	\$ 645,801	\$ 3,837,207

See independent auditor's report and accompanying notes to financial statements.

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

	PROGRAM SERVICES										SUPPORT SERVICES			
	Middle East Journal Publications	Sultan Qaboos Cultural Center	Public Policy Outreach, and Communications	Library	Annual Conference	Center for Turkish Studies	Other Programs	Total Program Services	Fund-Raising	General and Administrative	Total Support Services	Total Expenses		
Personnel:														
Salaries	\$ 358,329	\$ 233,531	\$ 200,515	\$ 64,967	\$ 68,049	\$ 95,091	\$ 246,550	\$ 1,329,629	\$ 86,047	\$ 90,733	\$ 176,780	\$ 1,506,409		
Employee benefits	9,007	16,597	26,194	8,069	3,204	10,188	29,979	112,524	9,021	4,274	13,295	125,819		
Payroll taxes	26,819	31,230	7,133	4,523	3,504	6,348	7,705	92,391	7,071	4,674	11,745	104,136		
Subtotal personnel	394,155	281,358	233,842	77,559	74,757	111,627	284,234	1,534,544	102,139	99,681	201,820	1,736,364		
Advertising	134	159	530	-	-	-	-	823	150	140	290	1,113		
Bank charges	17,424	665	950	-	32	-	-	19,071	-	617	617	19,688		
Board meetings	-	-	2,378	-	-	-	-	2,378	-	-	-	2,378		
Conference and meetings	-	633	148,687	1,125	105,698	21,286	15,459	292,888	1,556	36,457	38,013	330,901		
Depreciation and amortization	5,628	8,324	18,673	1,986	5,628	3,752	1,824	47,691	300	11,308	11,608	59,299		
Dues and subscriptions	3,200	275	-	-	-	-	49	3,524	7,995	-	7,995	11,519		
Insurance	1,824	1,824	13,042	945	1,824	1,216	-	21,283	2,604	4,256	6,860	28,143		
Investment fees	-	-	-	-	-	-	-	-	-	27,468	27,468	27,468		
Occupancy	4,772	6,772	49,373	1,591	4,772	3,186	4,772	79,659	3,501	6,361	9,862	89,521		
Office and support	-	-	58,411	-	-	-	43,861	102,272	-	8,520	8,520	110,792		
Postage and delivery	14	32,438	337	-	109	123	209	33,230	407	1,322	1,729	34,959		
Printing and publications	429	10,892	8,526	2,015	5,302	312	40,315	67,791	160	3,640	3,800	71,591		
Professional services	500	500	-	-	1,350	1,400	7,289	11,039	3,680	33,906	37,586	48,625		
Repairs and maintenance	5,193	5,193	6,907	1,731	5,193	3,462	8,114	37,524	1,503	6,926	8,429	45,953		
Research and exhibition	-	-	36,289	-	-	-	-	36,289	-	-	-	36,289		
Supplies and equipment	2,908	560	6,410	4,811	3,005	616	67,943	86,253	2,038	34,622	36,660	122,913		
Telecommunications	7,993	8,841	3,240	1,586	3,392	3,664	6,635	36,469	64	4,150	4,214	40,683		
Travel and entertainment	-	2,393	50,856	151	13,426	12,506	39,935	119,267	24,464	1,592	26,056	145,323		
Total	\$ 444,174	\$ 360,827	\$ 638,451	\$ 93,500	\$ 224,488	\$ 163,150	\$ 520,639	\$ 2,531,995	\$ 150,561	\$ 280,966	\$ 431,527	\$ 2,963,522		

See independent auditor's report and accompanying notes to financial statements.

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,482,216	\$ 1,259,622
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	63,996	59,299
Net depreciation (appreciation) in fair value on investments	(491,069)	(355,649)
Change in beneficial interest in perpetual trust	-	1,250
Permanently restricted contributions	(26,087)	(33,454)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(261,607)	27,602
Prepaid expenses	(12,708)	36,212
Grants and contributions receivable	(182,588)	(1,158)
Security deposits	(15,500)	-
Increase (decrease) in liabilities:		
Accounts payable	388,847	15,478
Accrued expenses	(2,433)	23,115
Deferred revenue	49,627	(19,379)
Net Cash Provided by Operating Activities	992,694	1,012,938
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(84,479)	(161,522)
Proceeds from sale of investments	477,715	2,286,683
Purchases of investments	(604,412)	(2,577,743)
Beneficial interest in perpetual trust	(71,655)	(1,051,037)
Net Cash Used for Investing Activities	(282,831)	(1,503,619)
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	26,087	33,454
Contributions receivable for endowment	274,542	266,546
Net Cash Provided by Financing Activities (Endowment)	300,629	300,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	1,010,492	(190,681)
CASH AND CASH EQUIVALENTS, beginning of year	759,582	950,263
CASH AND CASH EQUIVALENTS, end of year	\$ 1,770,074	\$ 759,582

See independent auditor's report and accompanying notes to financial statements.

**THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

The Middle East Institute ("MEI") is a not-for-profit membership organization 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

Language Programs: MEI has been offering courses in Middle Eastern languages since 1953. Today, MEI's language program offers multiple levels of Arabic, Dari, Hebrew, Pashto, Persian, and Turkish, providing skills-oriented, affordable, and challenging language training for Washington-area professionals employed in government agencies, foreign embassies, international consulting organizations, and corporations, as well as for students enrolled in area graduate and undergraduate programs.

Middle East Journal and Publications: The Publications Department continues to produce *The Middle East Journal* as well as dozens of online publications by a variety of authors in the academic and practitioner community.

Sultan Qaboos Cultural Center: The Sultan Qaboos Cultural Center ("SQCC") offers a wide variety of Oman-oriented programming around the United States and in Oman. To fulfill its mission of strengthening understanding between the people of Oman and the United States, SQCC promotes and sponsors lectures, music and dance performances, symposiums, panel discussions, workshops, and outreach campaigns throughout the year. Effective January 1, 2014, MEI will no longer be overseeing the SQCC program. Instead, the program will be managed by the Embassy of Oman.

Public Policy, Outreach, and Communications: Over the years, MEI events have been covered by top national and international outlets including C-SPAN, A-Jazeera, CNN, Al-Hurra, NPR, and Voice of America. The Communications Department has also pursued an aggressive social media and outreach strategy aimed at building a virtual audience.

Library: MEI maintains a library containing a comprehensive collection of books and periodicals on Middle East topics. The library is open to the general public.

Annual Conference: MEI's annual conference is typically a three-day event that provides various seminars, speaker panels, and networking opportunities to its attendees.

Center for Turkish Studies: The Center for Turkish Studies ("CTS") aims to broaden the knowledge of Turkey in the United States through conferences, programs that attract media coverage, and events featuring scholars, dignitaries, and officials from across the political spectrum of Turkey and the United States.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS - continued

Program Services

Other Programs: During the year, MEI's Programs Department has met steady demand for clear, unbiased information about the Middle East with innovative, relevant programming and publications aimed at providing impartial analysis of events in the region for the interested public, policymakers, and government officials. MEI's in-person and virtual audience has continued to grow as the organization expands and diversifies the scope of its programming and the means by which it delivers information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

MEI uses the accrual method of accounting for financial statement reporting purposes. Under this method, revenue is recognized when earned and expenses when incurred.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation of the statement of activities.

Basis of Presentation and 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 they are received. Subscription revenue for *The Middle East Journal* is recognized over the term of the subscriptions. Revenue from membership dues is recognized over the applicable membership period, generally one year.

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and net assets as net assets released from restriction.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continue

Basis of Presentation and Revenue Recognition - continue

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. Temporarily restricted contributions whose restrictions are met in the same reporting period as the contribution is received are reported as unrestricted support.

Grants are recognized as revenues in the period in which such promises or agreements are made. Exchange transaction grants are recorded as revenue to the extent that expenditures are made. Grants receivable are recorded at the value of future payments to be received, which approximates their present value.

Net assets and revenue 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:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of MEI and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by MEI.

Allocation of Expenses

The costs of providing the programs and supporting activities have been summarized on a functional basis in the statement of activities. Expenditures are reported under categories that aggregate the cost associated with each program. Allocation of salaries, employee benefits and general and administrative expenses are made based on management's estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include demand deposits and all highly liquid debt instruments with original maturities of three month or less. At times throughout the year, cash and cash equivalents may exceed the insurance limits set by the Federal Deposit Insurance Corporation. MEI believes it is not exposed to any significant credit risk on cash and cash equivalents.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continue

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.

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.

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.

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.

Advertising Costs

Advertising costs are expensed as incurred.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2011
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Statement Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from the estimates that were used.

NOTE 3 - INCOME TAXES

The Middle East Institute is a 501(c)(3) organization that is exempt from Federal and District of Columbia income taxes under the provisions of the Internal Revenue Code Section 501(a), except for income unrelated to their exempt purpose. MEI recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. MEI does not believe its financial statements include any uncertain tax positions. No provision for income taxes is reflected in the accompanying financial statements for the year ended December 31, 2013.

MEI's income tax 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 Form 990 tax returns for the years ending December 31, 2010 through 2012 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The following schedule summarizes the contributions receivable as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Amounts due within one year	\$ 260,240	\$ 77,652
Amounts due within one year for endowment	300,000	300,000
Amounts due in two to four years for endowment	300,000	600,000
Less discount on endowment receivable (3% rate)	<u>(25,958)</u>	<u>(51,416)</u>
Total contributions receivable for endowment	<u>574,042</u>	<u>848,584</u>
Total contributions receivable, net of discount	<u>\$ 834,282</u>	<u>\$ 926,236</u>

Long term receivables above have been discounted to present value using a 3% discount rate. No allowance for doubtful accounts was established as of December 31, 2013 and 2012.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2013, consisted of the following:

	<u>2013</u>	<u>2012</u>
Building and improvements	\$ 1,579,845	\$ 1,577,573
Office equipment and furniture	710,308	628,101
Land	<u>334,115</u>	<u>334,115</u>
	2,624,268	2,539,789
Less accumulated depreciation and amortization	<u>(1,698,045)</u>	<u>(1,634,049)</u>
Net property and equipment	<u>\$ 926,223</u>	<u>\$ 905,740</u>

Depreciation and amortization expense totaled \$63,996 and \$59,299 for the years ended December 31, 2013 and 2012, respectively.

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the 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 priorities to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- 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 is a description of the valuation methodologies used to measure investments at fair value: Corporate bond obligations, mutual funds, common stocks and exchange traded funds are valued at the closing price reported in the active market in which the individual securities are traded. When observable price quotations are not available, fair value is determined based on the present value of the stream of cash flows it is expected to generate.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - continued

The preceding 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 MEI's 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 table sets forth by level, within the fair value hierarchy, MEI's investments at fair value as of December 31, 2013 and 2012:

Assets at Fair Value as of December 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income bonds	\$ 1,106,766	\$ -	\$ -	\$ 1,106,766
Mutual funds	2,480,533	-	-	2,480,533
Common stocks	1,354,429	-	-	1,354,429
Total Assets at Fair Value	\$ 4,941,728	\$ -	\$ -	\$ 4,941,728

Assets at Fair Value as of December 31, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 23,281	\$ -	\$ -	\$ 23,281
Fixed income bonds	1,156,586	-	-	1,156,586
Mutual funds	1,957,752	-	-	1,957,752
Equity	1,186,343	-	-	1,186,343
Total Assets at Fair Value	\$ 4,323,962	\$ -	\$ -	\$ 4,323,962

The following schedule summarizes the investment return for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 127,544	\$ 168,848
Net appreciation in fair value	491,069	355,649
Total	\$ 618,613	\$ 524,497

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 7 - 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 permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 Governing Board 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).

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
- 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, 2013 and 2012, there were no deficiencies in the endowment funds.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 7 - ENDOWMENTS - continued

MEI's endowment net assets consist of the following as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Library endowment	\$ -	\$ 119,978	\$ 1,000,000	\$ 1,119,978
Fares Award endowment:				
Investments and cash	-	101,355	900,000	1,001,355
Endowment funds receivable	-	-	574,042	574,042
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 221,333</u>	<u>\$ 2,474,042</u>	<u>\$ 2,695,375</u>

Changes in the endowment net assets for the year ended December 31, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2012	\$ -	\$ 144,311	\$ 2,448,584	\$ 2,592,895
Contributions	-	-	25,458	25,458
Distributions for operations	-	(69,772)	-	(69,772)
Interest and dividends income	-	24,969	-	24,969
Net appreciation in fair value	-	121,825	-	121,825
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 221,333</u>	<u>\$ 2,474,042</u>	<u>\$ 2,695,375</u>

MEI's endowment net assets consist of the following as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Library endowment	\$ -	\$ 78,756	\$ 1,000,000	\$ 1,078,756
Fares Award endowment:				
Investments and cash	-	65,555	600,000	665,555
Endowment funds receivable	-	-	848,584	848,584
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 144,311</u>	<u>\$ 2,448,584</u>	<u>\$ 2,592,895</u>

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 7 - ENDOWMENTS - continued

Changes in the endowment net assets for the year ended December 31, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2011	\$ (25,627)	\$ 11,301	\$ 2,415,130	\$ 2,400,804
Contributions	-	-	33,454	33,454
Interest and dividends income	-	50,554	-	50,554
Net appreciation in fair value	<u>25,627</u>	<u>82,456</u>	<u>-</u>	<u>108,083</u>
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 144,311</u>	<u>\$ 2,448,584</u>	<u>\$ 2,592,895</u>

NOTE 8 - BOARD DESIGNATED SPECIAL PURPOSE FUND

By motion passed by the Board of Governors of MEI in September 1995, the investments and cash equivalents professionally managed for MEI are designated for special purposes to be determined by the Board. The Board Designated Special Purpose Fund consists of the following at December 31, 2013 and 2012:

	<u>2012</u>	<u>2012</u>
Cash and cash equivalents	\$ 187,747	\$ 85,772
Investments	<u>2,859,465</u>	<u>2,649,423</u>
Total	<u>\$ 3,047,212</u>	<u>\$ 2,735,195</u>

NOTE 9 - 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 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. For the year ended December 31, 2013 and 2012, the fair value totaled \$1,122,697 and \$1,049,787, respectively. The Trust is included as permanently restricted net assets in the statement of activities.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
 (continued)

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were designated by donors for the following purposes as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Program and Project Restricted:		
Sultan Qaboos Cultural Center	\$ 341,036	\$ 150,954
Public policy, outreach and communications	433,567	91,738
Earnings on endowments	<u>221,333</u>	<u>144,311</u>
Total	<u>\$ 995,936</u>	<u>\$ 387,003</u>

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were designated by donors for the following purposes as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
MEI annual conference	\$ 1,474,042	\$ 1,448,854
Support for the MEI Library	1,000,000	1,000,000
Educational scholarships – perpetual trust	<u>1,050,416</u>	<u>1,049,787</u>
Total	<u>\$ 3,524,458</u>	<u>\$ 3,498,641</u>

NOTE 12 - LEASE COMMITMENTS

MEI leases office equipment under four separate operating lease agreements which expire in 2015. Rental expense, which includes insurance, totaled \$9,947 for the year ended December 31, 2013. Future minimum lease payments are as follows for the year ended December 31,

2014	\$ 2,028
2015	<u>338</u>
Total	<u>\$ 2,366</u>

NOTE 13 – SUB-LEASE INCOME

MEI sub-leases office space on a month-to-month basis. Rental income for the years ended December 31, 2013 and 2012, totaled \$25,520 and \$29,420, respectively.

THE MIDDLE EAST INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)

NOTE 14 - RETIREMENT PLAN

MEI has a 403(b) Savings Plan covering employees with at least one year of service. MEI contributes 7.5 percent up to \$25,000 in salary and six percent of salaries over \$25,000 on behalf of each participant. MEI's contributions for the years ended December 31, 2013 and 2012, totaled \$73,531 and \$48,059, respectively.

NOTE 15 - SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through April 21, 2014, 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 further disclosure.