

**THE MIDDLE EAST INSTITUTE
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Middle East Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Middle East Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Middle East Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Middle East Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Washington, DC
June 13, 2022

THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 661,531	\$ 2,079,706
Accounts receivable	128,247	78,244
Grants and contributions receivable	1,040,620	-
Prepaid expenses	78,453	80,869
Total Current Assets	1,908,851	2,238,819
PROPERTY AND EQUIPMENT, NET	14,457,316	14,855,580
OTHER ASSETS		
Investments in board designated account	12,494,035	11,116,442
Investments - endowment funds	4,720,058	4,285,546
Investments in beneficial interest in perpetual trust	1,457,951	1,366,208
Total Other Assets	18,672,044	16,768,196
TOTAL ASSETS	\$ 35,038,211	\$ 33,862,595
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 190,099	\$ 116,155
Accrued expenses	106,603	119,706
Deferred revenue	720,291	1,324,399
Total Current Liabilities	1,016,993	1,560,260
LONG-TERM LIABILITIES		
Line of credit	1,523,285	-
Total Liabilities	2,540,278	1,560,260
NET ASSETS		
Without donor restrictions:		
Undesignated	13,825,889	15,534,139
Board designated	12,494,035	11,116,442
Total without donor restrictions	26,319,924	26,650,581
With donor restrictions	6,178,009	5,651,754
Total Net Assets	32,497,933	32,302,335
TOTAL LIABILITIES AND NET ASSETS	\$ 35,038,211	\$ 33,862,595

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

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 3,379,162	\$ -	\$ 3,379,162
Grants	884,708	-	884,708
Forgiveness of PPP loan	359,279	-	359,279
Center for Policy Studies	539,859	-	539,859
Center for Education	327,060	-	327,060
Interest and dividends	225,772	115,546	341,318
Rental and other income	96,527	-	96,527
Membership dues	34,300	-	34,300
Net assets released from restrictions	42,629	(42,629)	-
Total Revenue and Support	5,889,296	72,917	5,962,213
EXPENSES			
Program Services:			
Center for Policy Studies	3,899,992	-	3,899,992
Center for Arts and Culture	577,777	-	577,777
Center for Education	722,221	-	722,221
Communications	649,999	-	649,999
Total Program Services	5,849,989	-	5,849,989
Support Services:			
Fundraising	649,999	-	649,999
General and administrative	846,679	-	846,679
Total Support Services	1,496,678	-	1,496,678
Total Expenses	7,346,667	-	7,346,667
CHANGE IN NET ASSETS FROM OPERATIONS	(1,457,371)	72,917	(1,384,454)
OTHER CHANGES			
Net appreciation in fair value of board designated investments	1,126,714	-	1,126,714
Net appreciation in fair value of endowment investments	-	335,732	335,732
Net appreciation in beneficial interest in perpetual trust	-	117,606	117,606
Total Other Changes	1,126,714	453,338	1,580,052
CHANGE IN NET ASSETS	(330,657)	526,255	195,598
NET ASSETS, beginning of year	26,650,581	5,651,754	32,302,335
NET ASSETS, end of year	\$ 26,319,924	\$ 6,178,009	\$ 32,497,933

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	\$ 2,689,539	\$ -	\$ 2,689,539
Grants	1,370,775	70,779	1,441,554
Forgiveness of PPP loan	430,133	-	430,133
Center for Policy Studies	275,769	-	275,769
Center for Education	347,736	-	347,736
Interest and dividends	194,263	89,992	284,255
Rental and other income	54,561	-	54,561
Membership dues	29,290	-	29,290
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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	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 Costs:									
Salaries	\$ 1,911,756	\$ 283,223	\$ 354,029	\$ 318,626	\$ 2,867,634	\$ 318,626	\$ 354,028	\$ 672,654	\$ 3,540,288
Employee benefits	207,672	30,766	38,458	34,612	311,508	34,612	38,457	73,069	384,577
Payroll taxes	151,029	22,375	27,968	25,171	226,543	25,171	27,969	53,140	279,683
Subtotal Personnel Costs	<u>2,270,457</u>	<u>336,364</u>	<u>420,455</u>	<u>378,409</u>	<u>3,405,685</u>	<u>378,409</u>	<u>420,454</u>	<u>798,863</u>	<u>4,204,548</u>
Advertising	8,409	1,246	1,557	1,402	12,614	1,402	1,557	2,959	15,573
Bad debt	-	-	-	-	-	-	2,416	2,416	2,416
Bank charges	-	-	-	-	-	-	31,389	31,389	31,389
Depreciation and amortization	231,840	34,347	42,933	38,640	347,760	38,640	42,934	81,574	429,334
Dues and subscriptions	47,023	6,966	8,708	7,837	70,534	7,837	8,708	16,545	87,079
Facilities, food and beverages	140,685	20,842	26,053	23,448	211,028	23,448	26,052	49,500	260,528
Insurance	-	-	-	-	-	-	69,004	69,004	69,004
Interest	-	-	-	-	-	-	21,152	21,152	21,152
Miscellaneous	-	-	-	-	-	-	499	499	499
Occupancy	60,314	8,935	11,169	10,052	90,470	10,052	11,171	21,223	111,693
Postage and delivery	27,287	4,042	5,053	4,548	40,930	4,548	5,053	9,601	50,531
Printing and publications	38,688	5,732	7,165	6,448	58,033	6,448	7,164	13,612	71,645
Professional services	874,213	129,513	161,891	145,702	1,311,319	145,702	161,892	307,594	1,618,913
Repairs and maintenance	31,514	4,669	5,836	5,252	47,271	5,252	5,836	11,088	58,359
Supplies and equipment	48,510	7,187	8,983	8,085	72,765	8,085	8,984	17,069	89,834
Telecommunications	81,257	12,038	15,048	13,543	121,886	13,543	15,046	28,589	150,475
Travel and entertainment	39,795	5,896	7,370	6,633	59,694	6,633	7,368	14,001	73,695
Total	<u>\$ 3,899,992</u>	<u>\$ 577,777</u>	<u>\$ 722,221</u>	<u>\$ 649,999</u>	<u>\$ 5,849,989</u>	<u>\$ 649,999</u>	<u>\$ 846,679</u>	<u>\$ 1,496,678</u>	<u>\$ 7,346,667</u>

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			
	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 Costs:									
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 Costs	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 and amortization	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
Miscellaneous	-	-	-	-	-	-	176	176	176
Occupancy	69,924	11,654	7,094	11,654	100,326	11,654	18,128	29,782	130,108
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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 195,598	\$ 1,139,710
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	429,334	438,719
Forgiveness of PPP loan	(359,279)	(430,133)
Net appreciation in fair value of investments	(1,580,052)	(1,769,308)
Change in beneficial interest in perpetual trust	(91,743)	(61,176)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(50,003)	55,292
Grants and contributions receivable	(1,040,620)	1,057,000
Prepaid expenses	2,416	(23,957)
Increase (decrease) in liabilities:		
Accounts payable	73,944	(322,534)
Accrued expenses	(13,103)	(26,099)
Deferred revenue	(604,108)	338,134
Net Cash (Used for) Provided by Operating Activities	(3,037,616)	395,648
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(31,070)	(213,726)
Proceeds from sales of investments	1,688,100	8,565,882
Purchases of investments	(2,011,896)	(7,461,011)
Net Cash (Used for) Provided by Investing Activities	(354,866)	891,145
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	359,279	430,133
Proceeds from line of credit	1,523,285	-
Proceeds from beneficial interest in perpetual trust	91,743	61,176
Net Cash Provided by Financing Activities	1,974,307	491,309
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,418,175)	1,778,102
CASH AND CASH EQUIVALENTS, beginning of year	2,079,706	301,604
CASH AND CASH EQUIVALENTS, end of year	\$ 661,531	\$ 2,079,706
SUPPLEMENTARY INFORMATION:		
Cash payments for interest expense	\$ 16,641	\$ -

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

**THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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 largely funded by grants and contributions.

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, U.S. 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 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, 2021 AND 2020
(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 preparation follows the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, *Not-for-Profit Entities*. In accordance with Topic 958, 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 and cash equivalents.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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 and amortized 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 repairs and maintenance 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.

Deferred Revenue

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

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 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 derived from *The Middle East Journal* is recognized over the term of the subscriptions. Annual banquet revenue, including sponsorships and ticket sales, is recognized in the year in which the banquet is held.

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 and Other 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 the statements of financial position.

Other income is derived from publication and book sales, which are recognized as revenue at the time the item is sold. For the years ended December 31, 2021 and 2020, publication and books sales totaled \$27,604 and \$8,841, respectively.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

Reclassifications

For comparative purposes, the presentation of the forgiveness of PPP loan has been taken out of contributions on the statement of activities and listed as a separate line item on both the statements of activities and cash flows for the year ended December 31, 2020. The reclassification was made to conform to the current year presentation, and 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, 2021 and 2020, 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, 2018 through 2020, are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
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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:

	2021	2020
Cash and cash equivalents	\$ 661,531	\$ 2,079,706
Accounts receivable	128,247	78,244
Grants and contributions receivable	1,040,620	-
Investments in board designated account	12,494,035	11,116,442
Investments - endowment funds	4,720,058	4,285,546
Investments in beneficial interest in perpetual trust	1,457,951	1,366,208
Total Financial Assets	20,502,442	18,926,146
Less: board designated reserves	(12,494,035)	(11,116,442)
Less: net assets encumbered by donor restrictions - perpetual in nature	(6,178,009)	(5,651,754)
Total Financial Assets Available to Meet Cash	18,300,408	2,117,950
Needs for General Expenditures within One Year	\$ 1,830,398	\$ 2,157,950

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NOTE E – PROPERTY AND EQUIPMENT

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

	2021	2020
Building and improvements	\$ 16,584,080	\$ 16,553,009
Office equipment and furniture	836,781	836,781
Land	334,115	334,115
	17,754,976	17,723,905
Less: accumulated depreciation	(3,297,660)	(2,868,325)
Property and Equipment, Net	\$ 14,457,316	\$ 14,855,580

Depreciation and amortization expense related to property and equipment totaled \$429,334 and \$438,719, for the years ended December 31, 2021 and 2020, respectively.

NOTE F – FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements*, 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 Topic 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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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, municipal 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, 2021:

	Assets at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 287,316	\$ -	\$ -	\$ 287,316
Common and preferred stock	479,563	-	-	479,563
U.S. Treasury bonds	-	158,992	-	158,992
Corporate bonds	-	621,164	-	621,164
Municipal bonds	-	133,189	-	133,189
Asset backed securities	13,887	-	-	13,887
Other fixed income securities	179,442	-	-	179,442
Certificates of deposit	-	239,641	-	239,641
Mutual funds:				
Fixed income	4,437,595	-	-	4,437,595
Equity	11,783,978	-	-	11,783,978
Other	30,000	-	-	30,000
Exchange traded funds	307,277	-	-	307,277
Total Assets at Fair Value	\$17,519,058	\$ 1,152,986	\$ -	\$18,672,044

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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, 2020:

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 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

NOTE G – ENDOWMENTS

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

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

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(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, 2021 and 2020, there were no deficiencies in the endowment.

MEI's endowment net assets consists of the following as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Ending Balance
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	-	922,749	922,749
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	-	1,297,309	1,297,309
Balance at December 31, 2021	\$ -	\$ 4,720,058	\$ 4,720,058

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

NOTE G – ENDOWMENTS - continued

Changes in the endowment net assets for the year ended December 31, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at December 31, 2020	\$ -	\$ 4,285,546	\$ 4,285,546
Interest and dividends (less fees of \$9,823)	-	98,780	98,780
Net appreciation in fair value of investments	-	335,732	335,732
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 4,720,058</u>	<u>\$ 4,720,058</u>

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

	Without Donor Restrictions	With Donor Restrictions	Ending Balance
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>

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

	Without Donor Restrictions	With Donor Restrictions	Total
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>

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DECEMBER 31, 2021 AND 2020
(continued)

NOTE H – BOARD DESIGNATED SPECIAL PURPOSE FUND

In September 1995, the Board of Governors, approved that the professionally managed MEI investments would be designated for special purposes. The Board Designated Special Purpose Fund consists of the following on December 31:

	2021	2020
Capital campaign	\$ 61,352	\$ 32,267
Special purposes	12,432,683	11,084,175
Total	\$ 12,494,035	\$ 11,116,442

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, 2021 and 2020, the fair value of investments totaled \$1,457,951 and \$1,366,208, 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, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Principal of the trust	\$ -	\$ 1,050,862	\$ 1,050,862
Beneficial interest in perpetual trust	-	407,089	407,089
Balance at December 31, 2021	\$ -	\$ 1,457,951	\$ 1,457,951

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(continued)

NOTE I – BENEFICIAL INTEREST IN PERPETUAL TRUST - continued

Changes in beneficial interest in perpetual trust consists of the following as of December 31, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning fair value, 1/1/2021	\$ -	\$ 1,366,208	\$ 1,366,208
Distributions	-	(42,629)	(42,629)
Interest and dividends (less fee of \$7,726)	-	16,766	16,766
Net appreciation in fair value of investments	-	117,606	117,606
Ending fair value, 12/31/2021	<u>\$ -</u>	<u>\$ 1,457,951</u>	<u>\$ 1,457,951</u>

MEI's beneficial interest in perpetual trust consists of the following as of December 31, 2020:

	<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	-	315,346	315,346
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 1,366,208</u>	<u>\$ 1,366,208</u>

Changes in beneficial interest in perpetual trust consist 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 \$6,768)	-	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>

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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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beneficial interest in perpetual trust - scholarships	\$ 1,457,951	\$ 1,366,208
MEI annual conference, award and speaker	2,797,309	2,539,798
Support for the MEI Library	1,922,749	1,745,748
Total	<u>\$ 6,178,009</u>	<u>\$ 5,651,754</u>

NOTE K – LINE OF CREDIT

On May 1, 2020, MEI obtained a line of credit in the amount of \$6,000,000. The line of credit is secured by MEI's building, which is located at 1761-1763 N Street, NW, Washington, D.C. 20036. The line of credit's interest rate is based off of 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, 2021 and 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, 2021 and 2020, the outstanding debt related to the line of credit totaled \$1,523,285 and \$0, respectively.

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, 2021 and 2020, the amortized loan fees totaled \$4,511 and \$2,631, respectively, and were charged to interest expense.

NOTE L – LEASE COMMITMENTS

During November 2020, MEI entered into a one year rental agreement for apartment space in connection with its Frontier Europe Program. The agreement expired in November 2021, and was not renewed. Occupancy, including utilities expense, for the years ended December 31, 2021 and 2020, totaled \$111,693 and \$130,108, respectively.

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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, 2021 and 2020, totaled \$68,250 and \$45,720, 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

MEI adopted the Middle East Institute 403(b) DC Plan for its employees' retirement benefits. Employees are eligible to participate in the plan, immediately upon employment. They must have completed a year of service before they are eligible for employer matches. 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, 2021 and 2020, totaled \$159,830 and \$138,752, respectively.

NOTE O – PPP LOAN

On May 3, 2020, MEI secured a \$430,133 loan with Capital One (the "Lender") under the Small Business Administration's Paycheck Protection Program ("PPP") that authorized forgivable loans to small businesses. This loan could be used to cover certain expenses during the COVID-19 crisis. The loan amount would be forgiven if the proceeds were used to cover payroll costs, rent, certain mortgage interest and utility costs over a period specified in the loan document after the loan was made. If not used for the described purpose, the loan would become 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 was recognized as revenue on the statement of activities as forgiveness of PPP loan for the year ended December 31, 2020.

On February 24, 2021, MEI secured another PPP loan in the amount of \$359,279 with the same Lender. The loan had the same conditions and interest rate as the first PPP loan except the maturity date was five years from the date of the loan agreement. On October 19, 2021, the loan was forgiven in full and the entire amount of \$359,279 was recognized as revenue on the statement of activities as forgiveness of PPP loan for the year ended December 31, 2021.

NOTE P – SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through June 13, 2022, 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.