

THE MIDDLE EAST INSTITUTE
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2015 and 2014, 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.

Janis Marissa & McQuade PA

Columbia, MD
May 6, 2016

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,316,116	\$ 2,316,234
Board designated cash (Note 8)	231,625	286,277
Total cash and cash equivalents	2,547,741	2,602,511
Accounts receivable	65,881	160,785
Grants and contributions receivable (Note 4)	35,609	101,515
Contribution receivable for endowment (Notes 4 and 7)	-	291,263
Prepaid expenses	21,704	35,288
Security deposit	12,600	5,200
Total Current Assets	2,683,535	3,196,562
PROPERTY AND EQUIPMENT, NET (Note 5)	1,080,847	1,046,295
OTHER ASSETS		
Investments in board designated account (Notes 6 and 8)	3,033,442	2,940,549
Investments for endowment (Notes 6 and 7)	2,656,830	2,452,916
Investments in beneficial interest in perpetual trust (Note 9)	1,003,586	1,100,192
Total Other Assets	6,693,858	6,493,657
TOTAL ASSETS	\$ 10,458,240	\$ 10,736,514
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 128,059	\$ 146,784
Accrued expenses	132,640	146,370
Deferred revenue	137,983	178,704
Total Current Liabilities	398,682	471,858
NET ASSETS		
Unrestricted:		
Undesignated available for operations	2,617,113	2,644,862
Board designated (Note 8)	3,265,067	3,226,826
Total unrestricted	5,882,180	5,871,688
Temporarily restricted (Note 10)	626,516	851,238
Permanently restricted (Note 11)	3,550,862	3,541,730
Total Net Assets	10,059,558	10,264,656
TOTAL LIABILITIES AND NET ASSETS	\$ 10,458,240	\$ 10,736,514

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

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 2,276,700	\$ -	\$ -	\$ 2,276,700
Grants	77,673	506,467	-	584,140
Endowment contributions	-	-	9,132	9,132
Membership dues	53,500	-	-	53,500
Language programs	462,741	-	-	462,741
Annual conference	265,346	-	-	265,346
<i>The Middle East Journal</i> and publications	186,599	-	-	186,599
Library	3,035	-	-	3,035
Interest and dividends, net	62,715	94,493	-	157,208
Rental and other income	59,362	-	-	59,362
In-kind contribution	84,834	-	-	84,834
Net assets released from restrictions	654,527	(654,527)	-	-
Total Revenue and Support	<u>4,187,032</u>	<u>(53,567)</u>	<u>9,132</u>	<u>4,142,597</u>
EXPENSES				
Program services:				
Language programs	390,059	-	-	390,059
<i>The Middle East Journal</i> and publications	308,831	-	-	308,831
Education and outreach	933,578	-	-	933,578
Public policy and communications	1,629,521	-	-	1,629,521
Library	119,375	-	-	119,375
Total program services	<u>3,381,364</u>	<u>-</u>	<u>-</u>	<u>3,381,364</u>
Support services:				
Fundraising	250,006	-	-	250,006
General and administrative	406,198	-	-	406,198
Total support services	<u>656,204</u>	<u>-</u>	<u>-</u>	<u>656,204</u>
Total Expenses	<u>4,037,568</u>	<u>-</u>	<u>-</u>	<u>4,037,568</u>
CHANGE IN NET ASSETS FROM OPERATIONS	149,464	(53,567)	9,132	105,029
OTHER CHANGES				
Net depreciation in fair value of designated investments	(138,972)	-	-	(138,972)
Net depreciation in fair value of endowment investments	-	(143,085)	-	(143,085)
Net depreciation in beneficial interest in perpetual trust	-	(28,070)	-	(28,070)
Total Other Changes	<u>(138,972)</u>	<u>(171,155)</u>	<u>-</u>	<u>(310,127)</u>
CHANGE IN NET ASSETS	10,492	(224,722)	9,132	(205,098)
NET ASSETS, beginning of year	<u>5,871,688</u>	<u>851,238</u>	<u>3,541,730</u>	<u>10,264,656</u>
NET ASSETS, end of year	<u>\$ 5,882,180</u>	<u>\$ 626,516</u>	<u>\$ 3,550,862</u>	<u>\$ 10,059,558</u>

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

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 1,092,675	\$ -	\$ -	\$ 1,092,675
Grants	1,600,000	475,246	-	2,075,246
Endowment contributions	-	-	17,272	17,272
Membership dues	44,147	-	-	44,147
Language programs	347,717	-	-	347,717
Annual conference	388,292	-	-	388,292
<i>The Middle East Journal</i> and publications	210,083	1,024	-	211,107
Library	2,407	100,000	-	102,407
Center for Turkish studies	-	67,000	-	67,000
Interest and dividends, net	42,588	42,951	-	85,539
Rental and other income	42,799	-	-	42,799
In-kind contribution	33,985	-	-	33,985
Net assets released from restrictions	1,128,389	(1,128,389)	-	-
Total Revenue and Support	<u>4,933,082</u>	<u>(442,168)</u>	<u>17,272</u>	<u>4,508,186</u>
EXPENSES				
Program services:				
Language programs	354,806	-	-	354,806
<i>The Middle East Journal</i> and publications	239,646	-	-	239,646
Education and outreach	827,261	-	-	827,261
Public policy and communications	1,443,422	-	-	1,443,422
Library	116,799	-	-	116,799
Center for Turkish studies	103,749	-	-	103,749
Total program services	<u>3,085,683</u>	<u>-</u>	<u>-</u>	<u>3,085,683</u>
Support services:				
Fundraising	202,711	-	-	202,711
General and administrative	383,041	-	-	383,041
Total support services	<u>585,752</u>	<u>-</u>	<u>-</u>	<u>585,752</u>
Total Expenses	<u>3,671,435</u>	<u>-</u>	<u>-</u>	<u>3,671,435</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,261,647	(442,168)	17,272	836,751
OTHER CHANGES				
Net appreciation in fair value of designated investments	60,354	-	-	60,354
Net appreciation in fair value of endowment investments	-	69,731	-	69,731
Net appreciation in beneficial interest in perpetual trust	-	21,368	-	21,368
Total Other Changes	<u>60,354</u>	<u>91,099</u>	<u>-</u>	<u>151,453</u>
CHANGE IN NET ASSETS	1,322,001	(351,069)	17,272	988,204
NET ASSETS, beginning of year	<u>4,549,687</u>	<u>1,202,307</u>	<u>3,524,458</u>	<u>9,276,452</u>
NET ASSETS, end of year	<u>\$ 5,871,688</u>	<u>\$ 851,238</u>	<u>\$ 3,541,730</u>	<u>\$ 10,264,656</u>

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

THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES						SUPPORT SERVICES			
	Language Programs	Middle East Journal and Publications	Education and Outreach	Public Policy and Communications	Library	Total Program Services	Fund-Raising	General and Administrative	Total Support Services	Total Expenses
Personnel:										
Salaries	\$ 280,737	\$ 178,328	\$ 209,735	\$ 811,462	\$ 63,400	\$ 1,543,662	\$ 131,096	\$ 227,188	\$ 358,284	\$ 1,901,946
Employee benefits	5,366	57,607	17,387	59,326	24,248	163,934	17,685	11,553	29,238	193,172
Payroll taxes	21,833	13,188	7,342	48,478	4,247	95,088	9,987	27,491	37,478	132,566
Subtotal personnel	307,936	249,123	234,464	919,266	91,895	1,802,684	158,768	266,232	425,000	2,227,684
Advertising	680	-	334	-	-	1,014	450	1,559	2,009	3,023
Bad debt expense	17,201	2,505	-	682	-	20,388	-	162	162	20,550
Bank charges	19,127	3,114	-	-	-	22,241	-	3,474	3,474	25,715
Depreciation and amortization	11,570	6,941	23,139	46,278	3,470	91,398	6,941	17,355	24,296	115,694
Dues and subscriptions	-	338	-	-	-	338	-	1,028	1,028	1,366
Facilities, food and beverages	-	870	150,229	149,430	70	300,599	227	11,315	11,542	312,141
Insurance	4,668	2,740	9,137	18,272	4,950	39,767	2,740	8,217	10,957	50,724
Occupancy	4,221	2,532	8,443	59,402	3,120	77,718	2,532	7,602	10,134	87,852
Miscellaneous	-	-	7,649	-	-	7,649	-	-	-	7,649
Postage and delivery	45	21,641	974	300	103	23,063	-	3,199	3,199	26,262
Printing and publications	-	7,988	12,089	3,243	60	23,380	3,586	945	4,531	27,911
Professional services	1,450	-	144,162	214,793	-	360,405	60,000	62,819	122,819	483,224
Repairs and maintenance	7,754	4,652	15,509	31,018	11,358	70,291	4,652	2,603	7,255	77,546
Supplies and equipment	6,804	165	12,576	18,864	468	38,877	3,180	15,199	18,379	57,256
Telecommunications	7,604	4,562	15,208	39,544	2,281	69,199	4,562	2,281	6,843	76,042
Travel and entertainment	999	1,660	299,665	128,429	1,600	432,353	2,368	2,208	4,576	436,929
Total	\$ 390,059	\$ 308,831	\$ 933,578	\$ 1,629,521	\$ 119,375	\$ 3,381,364	\$ 250,006	\$ 406,198	\$ 656,204	\$ 4,037,568

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

THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	PROGRAM SERVICES						SUPPORT SERVICES			
	<i>Middle East Journal and Publications</i>	Sultan Qaboos Cultural Center	Public Policy and Communications	Library	Center for Turkish Studies	Total Program Services	Fund-Raising	General and Administrative	Total Support Services	Total Expenses
Personnel:										
Salaries	\$ 284,197	\$ 166,415	\$ 760,232	\$ 62,900	\$ 32,313	\$ 1,470,277	\$ 140,635	\$ 226,785	\$ 367,420	\$ 1,837,697
Employee benefits	9,263	17,060	69,401	12,708	6,946	129,878	18,661	35,967	54,628	184,506
Payroll taxes	23,724	8,464	52,285	4,522	4,788	99,283	10,839	22,485	33,324	132,607
Subtotal personnel	317,184	191,939	881,918	80,130	44,047	1,699,438	170,135	285,237	455,372	2,154,810
Advertising	1,620	217	20	-	35	1,892	-	21,900	21,900	23,792
Bad debt	-	795	-	-	-	795	-	2,000	2,000	2,795
Bank charges	15,839	1,931	-	21	-	17,888	77	9,580	9,657	27,545
Depreciation and amortization	4,701	4,701	32,906	4,701	4,701	79,915	-	14,103	14,103	94,018
Dues and subscriptions	-	433	20	-	-	483	-	799	799	1,282
Facilities, food and beverages	-	540	6,772	400	29,853	336,305	-	775	775	337,080
Insurance	1,896	1,804	12,626	6,754	1,804	35,706	-	5,409	5,409	41,115
Occupancy	2,055	2,055	56,904	5,813	2,055	81,214	2,300	3,868	6,168	87,382
Miscellaneous	-	-	-	-	-	-	-	250	250	250
Postage and delivery	31	16,236	285	135	44	16,873	620	8,902	9,522	26,395
Printing and publications	3,772	11,421	34	-	-	16,422	2,727	742	3,469	19,891
Professional services	3,135	3,135	329,273	3,135	3,135	384,810	24,279	9,403	33,682	418,492
Repairs and maintenance	-	1,406	-	7,650	-	9,056	1,714	4,217	5,931	14,987
Supplies and equipment	2,709	3,258	20,138	6,750	2,547	63,502	850	6,711	7,561	71,063
Telecommunications	1,864	1,272	52,013	1,272	1,272	67,826	-	3,815	3,815	71,641
Travel and entertainment	-	126	50,513	38	14,256	273,558	9	5,330	5,339	278,897
Total	\$ 354,806	\$ 239,646	\$ 1,443,422	\$ 116,799	\$ 103,749	\$ 3,085,683	\$ 202,711	\$ 383,041	\$ 585,752	\$ 3,671,435

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

**THE MIDDLE EAST INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (205,098)	\$ 988,204
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	115,694	94,018
Net depreciation (appreciation) in fair value on investments	310,127	(151,453)
Change in beneficial interest in perpetual trust	96,606	5,250
Permanently restricted contributions	(9,132)	(17,272)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	94,904	149,626
Prepaid expenses	13,584	(22,241)
Grants and contributions receivable	65,906	158,725
Security deposits	(7,400)	10,500
Increase (decrease) in liabilities:		
Accounts payable	(18,725)	(273,334)
Accrued expenses	(13,730)	76,587
Deferred revenue	(40,721)	28,150
Net Cash Provided by Operating Activities	402,015	1,046,760
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(150,246)	(214,090)
Proceeds from sale of investments	2,451,830	1,481,750
Purchases of investments	(2,962,158)	(1,776,784)
Net Cash Used for Investing Activities	(660,574)	(514,374)
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	9,132	17,272
Beneficial interest in perpetual trust	(96,606)	(5,250)
Contributions receivable for endowment	291,263	282,779
Net Cash Provided by Financing Activities	203,789	294,801
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(54,770)	832,437
CASH AND CASH EQUIVALENTS, beginning of year	2,602,511	1,770,074
CASH AND CASH EQUIVALENTS, end of year	\$ 2,547,741	\$ 2,602,511

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

**THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

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

Program Services

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.

The 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.

Education and Outreach: MEI uses its educational programs that promote art and culture awareness to engage Arab artists and Washington's community of policymakers, analysts, and fellow artists in a conversation about the region in order to strengthen and expand people-to-people relations and increase understanding and cooperation. Events held in 2014 and 2015 included music, readings, poetry, film screenings, artist talks, and panel discussions.

MEI also aims to provide a formative professional experience for the upcoming generation of Middle East–North Africa career professionals from the United States and abroad. Its leadership development internship program provides a professional training experience that includes working in MEI's various departments alongside MEI programmatic and senior staff; resume development, networking, interviewing, and job search skill building workshops; and attending Washington DC policy-focused briefings and events at think tanks, government agencies, universities, and more.

Public Policy 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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS - continued

Program Services (continued)

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 Leadership Development Internship Program at MEI aims to provide a formative professional experience for the upcoming generation of Middle East–North Africa career professionals from the United States and abroad. The program provides a professional training experience that includes working in MEI’s various departments alongside MEI programmatic and senior staff; resume development, networking, interviewing, and job search skill building workshops; and attending Washington DC policy-focused briefings and events at think tanks, government agencies, universities, and more.

NOTE 2 - 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 the topic, 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:

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Statement Presentation (continued)

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

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met by either actions of MEI and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by MEI.

Cash and Cash Equivalents

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

Accounts, Grants and Contributions Receivable

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

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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continue

Property and Equipment

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

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

When property or equipment is sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in the statement of activities. Expenditures for maintenance and repairs that do not materially extend the useful lives of property and equipment are charged to expense when incurred. MEI capitalizes property and equipment equal to or greater than \$500.

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. 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.

Unconditional contributions and other support are recognized in the period in which the promise is made. MEI reports grants and gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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.

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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In-kind Contributions

MEI recognizes in-kind contributions that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions are recorded at fair value.

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.

Use of Estimates

The preparation of financial statements in conformity 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.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation, which included netting investment fees against investment income.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

NOTE 3 - 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, 2015 and 2014, 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 Form 990 information returns for the years ending December 31, 2012 through 2014 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 – GRANTS AND CONTRIBUTIONS RECEIVABLE

The following schedule summarizes the contributions receivable as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Amounts due within one year	<u>\$ 35,609</u>	<u>\$ 101,515</u>
Amounts due within one year for endowment	-	300,000
Less discount on endowment receivable (3% rate)	<u>-</u>	<u>(8,737)</u>
Total contributions receivable for endowment	<u>-</u>	<u>291,263</u>
Total contributions receivable, net of discount	<u>\$ 35,609</u>	<u>\$ 392,778</u>

Long term receivables have been discounted to present value using a 3% discount rate. No allowance for doubtful accounts was established as of December 31, 2015 and 2014.

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NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 1,741,897	\$ 1,766,536
Office equipment and furniture	694,586	519,701
Land	<u>334,115</u>	<u>334,115</u>
	2,770,598	2,620,352
Less accumulated depreciation and amortization	<u>(1,689,751)</u>	<u>(1,574,057)</u>
Net property and equipment	<u>\$ 1,080,847</u>	<u>\$ 1,046,295</u>

Depreciation and amortization expense totaled \$115,694 and \$94,018 for the years ended December 31, 2015 and 2014, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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NOTE 6 - FAIR VALUE MEASUREMENTS – continued

The following is a description of the valuation methodologies used to measure investments at fair value: mutual funds, closed-end funds, and common and preferred stocks and exchange traded funds are valued at the observable closing price reported in the active market in which the individual securities are traded. The fair values of corporate bonds and certificates of deposit have been provided by MEI's investment managers and custodian banks, who use a variety of pricing sources to determine market valuations, including indexes for each sector of the market. The following tables present MEI's fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2015 and 2014:

Assets at Fair Value as of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and Preferred Stock	\$ 294,227	\$ -	\$ -	\$ 294,227
Closed-end Funds	58,676	-	-	58,676
Corporate Bonds	-	66,534	-	66,534
Certificates of Deposit	-	152,448	-	152,448
Mutual Funds:				
Fixed Income	2,048,490	-	-	2,048,490
Equity	1,239,747	-	-	1,239,747
Exchange Traded Funds	2,833,736	-	-	2,833,736
Total Assets at Fair Value	\$ 6,474,876	\$ 218,982	\$ -	\$ 6,693,858

Assets at Fair Value as of December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and Preferred Stock	\$ 353,924	\$ -	\$ -	\$ 353,924
Corporate Bonds	-	138,902	-	138,902
Certificates of Deposit	-	175,871	-	175,871
Mutual Funds:				
Fixed Income	1,651,467	-	-	1,651,467
Equity	1,672,201	-	-	1,672,201
Exchange Traded Funds	2,501,292	-	-	2,501,292
Total Assets at Fair Value	\$ 6,178,884	\$ 314,773	\$ -	\$ 6,493,657

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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 Board of Governors has approved, the Statement of Investment Policies for each endowment fund. These policies have identified an appropriate risk posture for the funds, stated expectations and objectives for the fund, provided asset allocation guidelines, and established criteria to monitor and evaluate the performance results of the fund’s managers. MEI expects the endowment funds to provide an average real rate of return to equal the return of the benchmark for each asset/sub-asset class. To satisfy the long term rate of return objectives, MEI relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

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

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

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

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

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NOTE 7 - ENDOWMENTS - continued

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, 2015 and 2014, there were no deficiencies in the endowment funds.

MEI's endowment net assets consist of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:				
Library endowment	\$ -	\$ 124,918	\$ 1,000,000	\$ 1,124,918
Fares Award endowment	-	120,398	1,500,000	1,620,398
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 245,316</u>	<u>\$ 2,500,000</u>	<u>\$ 2,745,316</u>

Changes in the endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2014	\$ -	\$ 314,900	\$ 2,491,263	\$ 2,806,163
Contributions	-	-	8,737	8,737
Interest and dividends (less fees of \$20,247)	-	73,501	-	73,501
Net depreciation in fair value	-	(143,085)	-	(143,085)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 245,316</u>	<u>\$ 2,500,000</u>	<u>\$ 2,745,316</u>

MEI's endowment net assets consist of the following as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:				
Library endowment	\$ -	\$ 150,356	\$ 1,000,000	\$ 1,150,356
Fares Award endowment	-	164,544	1,491,263	1,655,807
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 314,900</u>	<u>\$ 2,491,263</u>	<u>\$ 2,806,163</u>

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NOTE 7 - ENDOWMENTS – continued

Changes in the endowment net assets for the year ended December 31, 2014, are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance at December 31, 2013	\$ -	\$ 221,333	\$ 2,474,042	\$ 2,695,375
Contributions	-	-	17,221	17,221
Interest and dividends income (less fees of \$17,942)	-	23,836	-	23,836
Net appreciation in fair value	-	<u>69,731</u>	-	<u>69,731</u>
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 314,900</u>	<u>\$ 2,491,263</u>	<u>\$ 2,806,163</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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 231,625	\$ 286,277
Investments	<u>3,033,442</u>	<u>2,940,549</u>
Total	<u>\$ 3,265,067</u>	<u>\$ 3,226,826</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 “Trust”). The funds are held and managed by a third-party trustee whose objective is to preserve and enhance the trust corpus as well as to generate income on a continuum basis. As such, MEI has no control in the manner in which the trust funds are invested. The income from the trust is to be used to provide financial assistance, including but not limited to scholarships, fellowships, transportation, and living expenses to enable foreign students from Turkey and other Arab countries to study at educational institutions, primarily in the United States. Currently, the anticipated amount of annual income distributions for scholarships is \$32,000, which occurred in the years ended December 31, 2015 and 2014. For the years ended December 31, 2015 and 2014, the fair value of investments totaled \$1,003,586 and \$1,100,192, respectively. The Trust also held cash totaling \$88,962 and \$31,028, for the years ended December 31, 2015 and 2014, respectively, which is included in board designated cash on the statements of financial position. The Trust is included as permanently restricted net assets in the statements of activities.

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NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were designated by donors for the following purposes as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Program and Project Restricted:		
Education and outreach	\$ 339,516	\$ 455,575
Endowments	245,316	314,900
Beneficial interest in perpetual trust	<u>41,684</u>	<u>80,763</u>
Total	<u>\$ 626,516</u>	<u>\$ 851,238</u>

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were designated by donors for the following purposes as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
MEI annual conference, award and speaker	\$ 1,500,000	\$ 1,491,263
Support for the MEI Library	1,000,000	1,000,000
Educational scholarships – perpetual trust	<u>1,050,862</u>	<u>1,050,467</u>
Total	<u>\$ 3,550,862</u>	<u>\$ 3,541,730</u>

NOTE 12 – IN-KIND CONTRIBUTIONS

For the years ended December 31, 2015 and 2014, MEI received in-kind airline tickets and furniture with a fair value totaling \$84,834 and \$33,985, respectively.

NOTE 13 - LEASE COMMITMENTS

MEI leases office equipment under four separate operating lease agreements which expired at the end of 2015. Rental expense, which includes insurance, totaled \$15,200 and \$15,570 for the years ended December 31, 2015 and 2014.

NOTE 14 – SUB-LEASE INCOME

MEI sub-leases office space on a month-to-month basis. Rental income for the years ended December 31, 2015 and 2014, totaled \$40,000 and \$31,803, respectively.

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NOTE 15 - RETIREMENT PLAN

MEI established a qualified 403(b) Savings Plan covering eligible employees. MEI contributes seven and one half percent of salaries up to \$25,000, and six percent of salaries over \$25,000 on behalf of each participant. MEI's contributions for the years ended December 31, 2015 and 2014, totaled \$92,427 and \$89,215, respectively.

NOTE 16 - SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through May 6, 2015, 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.