

**THE MIDDLE EAST INSTITUTE**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2014 AND 2013**

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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 ("MEI") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*James Maurice & McQuade PA*

Columbia, MD  
April 1, 2015

**THE MIDDLE EAST INSTITUTE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

	2014	2013
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,316,234	\$ 1,582,327
Board designated cash (Note 8)	286,277	187,747
Total cash and cash equivalents	2,602,511	1,770,074
Accounts receivable	160,785	310,411
Grants and contributions receivable (Note 4)	101,515	260,240
Contribution receivable for endowment, current (Notes 4 and 7)	291,263	300,000
Prepaid expenses	35,288	13,047
Total current assets	3,191,362	2,653,772
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment, net (Note 5)	1,046,295	926,223
<b>OTHER ASSETS</b>		
Investments in board designated account (Notes 6 and 8)	2,940,549	2,859,465
Investments for endowment (Notes 6 and 7)	2,452,916	2,082,263
Investments in beneficial interest in perpetual trust (Note 9)	1,100,192	1,105,442
Contribution receivable for endowment, net of discount (Notes 4 and 7)	-	274,042
Security deposit	5,200	15,700
Total other assets	6,498,857	6,336,912
<b>TOTAL ASSETS</b>	<b>\$ 10,736,514</b>	<b>\$ 9,916,907</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 146,784	\$ 420,118
Accrued expenses	146,370	69,783
Deferred revenue	178,704	150,554
Total current liabilities	471,858	640,455
<b>NET ASSETS</b>		
Unrestricted net assets		
Undesignated available for operations	3,019,157	1,708,846
Board designated (Note 8)	3,226,826	3,047,212
Total unrestricted net assets	6,245,983	4,756,058
Temporarily restricted net assets (Note 10)	476,943	995,936
Permanently restricted net assets (Note 11)	3,541,730	3,524,458
Total net assets	10,264,656	9,276,452
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,736,514</b>	<b>\$ 9,916,907</b>

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
<b>Public Support</b>				
Contributions	\$ 1,092,675	\$ -	\$ -	\$ 1,092,675
Grants and other programs	1,600,000	475,246	-	2,075,246
Endowment contributions	-	-	17,272	17,272
Membership dues	44,147	-	-	44,147
<b>Program Revenue</b>				
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
<b>Other Income</b>				
Interest and dividends	131,397	-	-	131,397
Rental and other income	42,799	-	-	42,799
Inkind contribution	33,985	-	-	33,985
Net assets released from restrictions	1,183,631	(1,183,631)	-	-
Total Revenue and Support	<u>5,077,133</u>	<u>(540,361)</u>	<u>17,272</u>	<u>4,554,044</u>
<b>EXPENSES</b>				
<b>Program services:</b>				
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, outreach, 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>
<b>Support services:</b>				
Fundraising	202,711	-	-	202,711
General and administrative	428,899	-	-	428,899
Total support services	<u>631,610</u>	<u>-</u>	<u>-</u>	<u>631,610</u>
Total Expenses	<u>3,717,293</u>	<u>-</u>	<u>-</u>	<u>3,717,293</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	1,359,840	(540,361)	17,272	836,751
<b>OTHER CHANGES</b>				
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>130,085</u>	<u>21,368</u>	<u>-</u>	<u>151,453</u>
<b>CHANGE IN NET ASSETS</b>	1,489,925	(518,993)	17,272	988,204
<b>NET ASSETS, beginning of year</b>	<u>4,756,058</u>	<u>995,936</u>	<u>3,524,458</u>	<u>9,276,452</u>
<b>NET ASSETS, end of year</b>	<u>\$ 6,245,983</u>	<u>\$ 476,943</u>	<u>\$ 3,541,730</u>	<u>\$ 10,264,656</u>

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
<b>REVENUE AND SUPPORT</b>				
<b>Public Support</b>				
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
<b>Program Revenue</b>				
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
<b>Other Income</b>				
Interest and dividends	121,648	-	-	121,648
Rental and other income	41,257	-	-	41,257
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>
<b>EXPENSES</b>				
<b>Program services:</b>				
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>
<b>Support services:</b>				
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>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	443,369	521,691	26,087	991,147
<b>OTHER CHANGES</b>				
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>
<b>CHANGE IN NET ASSETS</b>	847,196	608,933	26,087	1,482,216
<b>NET ASSETS, beginning of year</b>	<u>3,908,862</u>	<u>387,003</u>	<u>3,498,371</u>	<u>7,794,236</u>
<b>NET ASSETS, end of year</b>	<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 FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

**PROGRAM SERVICES**

	<b>PROGRAM SERVICES</b>						<b>SUPPORT SERVICES</b>				
	<i>Middle East Journal and Publications</i>	<b>Education and Outreach</b>	<b>Public Policy and Communications</b>	<b>Library</b>	<b>Center for Turkish Studies</b>	<b>Total Program Services</b>	<b>Fund-Raising</b>	<b>General and Administrative</b>	<b>Total Support Services</b>	<b>Total Expenses</b>	
Personnel:											
Salaries	\$ 284,197	\$ 166,415	\$ 164,220	\$ 760,232	\$ 62,900	\$ 32,313	\$ 1,470,277	\$ 140,635	\$ 226,785	\$ 367,420	\$ 1,837,697
Employee benefits	9,263	17,060	14,500	69,401	12,708	6,946	129,878	18,661	35,967	54,628	184,506
Payroll taxes	23,724	8,464	5,500	52,285	4,522	4,788	99,283	10,839	22,485	33,324	132,607
Subtotal personnel	317,184	191,939	184,220	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 expense	-	795	-	-	-	-	795	-	2,000	2,000	2,795
Bank charges	15,839	1,931	97	-	21	-	17,888	77	9,580	9,657	27,545
Conference and meetings	-	540	298,740	274,252	400	29,853	603,785	-	775	775	604,560
Depreciation and amortization	4,701	4,701	28,205	32,906	4,701	4,701	79,915	-	14,103	14,103	94,018
Dues and subscriptions	-	433	30	20	-	-	483	-	799	799	1,282
Insurance	1,896	1,804	10,822	12,626	6,754	1,804	35,706	-	5,409	5,409	41,115
Investment fees	-	-	-	-	-	-	-	-	45,858	45,858	45,858
Occupancy	2,055	2,055	12,332	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	142	285	135	44	16,873	620	8,902	9,522	26,395
Printing and publications	3,772	11,421	1,195	34	-	-	16,422	2,727	742	3,469	19,891
Professional services	3,135	3,135	42,997	61,793	3,135	3,135	117,330	24,279	9,403	33,682	151,012
Repairs and maintenance	-	-	1,406	-	7,650	-	9,056	1,714	4,217	5,931	14,987
Supplies and equipment	2,709	3,258	28,100	20,138	6,750	2,547	63,502	850	6,711	7,561	71,063
Telecommunications	1,864	1,272	10,133	52,013	1,272	1,272	67,826	-	3,815	3,815	71,641
Travel and entertainment	-	126	208,625	50,513	38	14,256	273,558	9	5,330	5,339	278,897
<b>Total</b>	<b>\$ 354,806</b>	<b>\$ 239,646</b>	<b>\$ 827,261</b>	<b>\$ 1,443,422</b>	<b>\$ 116,799</b>	<b>\$ 103,749</b>	<b>\$ 3,085,683</b>	<b>\$ 202,711</b>	<b>\$ 428,899</b>	<b>\$ 631,610</b>	<b>\$ 3,717,293</b>

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			
	<i>Middle East Journal and Publications</i>	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	426,454	241	-	241	426,695	
Depreciation and amortization	9,600	9,600	-	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	-	7,750	2,800	24,488	2,800	2,800	5,600	30,088	
Investment fees	-	-	-	7,992	5,562	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	-	-	9,000	-	207,723	-	33,075	33,075	240,798	
Repairs and maintenance	1,131	2,500	-	5,550	2,500	35,917	-	21,446	21,446	57,363	
Research and exhibition	-	-	-	-	-	64,174	-	-	-	64,174	
Supplies and equipment	795	464	-	2,014	518	52,240	2,800	23,492	26,292	78,532	
Telecommunications	2,570	2,000	-	500	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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 988,204	\$ 1,482,216
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	94,018	63,996
Net appreciation in fair value on investments	(151,453)	(491,069)
Change in beneficial interest in perpetual trust	5,250	-
Permanently restricted contributions	(17,272)	(26,087)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	149,626	(261,607)
Prepaid expenses	(22,241)	(12,708)
Grants and contributions receivable	158,725	(182,588)
Security deposits	10,500	(15,500)
Increase (decrease) in liabilities:		
Accounts payable	(273,334)	388,847
Accrued expenses	76,587	(2,433)
Deferred revenue	28,150	49,627
Net Cash Provided by Operating Activities	1,046,760	992,694
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(214,090)	(84,479)
Proceeds from sale of investments	1,481,750	477,715
Purchases of investments	(1,776,784)	(604,412)
Beneficial interest in perpetual trust	(5,250)	(71,655)
Net Cash Used for Investing Activities	(514,374)	(282,831)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	17,272	26,087
Contributions receivable for endowment	282,779	274,542
Net Cash Provided by Financing Activities	300,051	300,629
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	832,437	1,010,492
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,770,074	759,582
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 2,602,511	\$ 1,770,074

**SUPPLEMENTAL DISCLOSURE:**

During the year, MEI disposed of fully depreciated equipment and software with a total cost basis of \$218,006.

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

**THE MIDDLE EAST INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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.

**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 promotes 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 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.

**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 ceased overseeing the SQCC program. Instead, the program is managed by the Embassy of Oman.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**  
(continued)

**NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS - continued**

Program Services

**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.

**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**

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.

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.

**THE MIDDLE EAST INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**  
(continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continue**

Basis of Presentation and Revenue Recognition - continue

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.

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.

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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continue**

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.

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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Deferred Revenue

Deferred revenue represents unearned income received for subscriptions to MEI's quarterly journal, tuition fees paid for various language classes held throughout the year, and advertising revenue for advertisements to be placed in the journals published in future periods.

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.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 financial statement presentation.

Advertising Costs

Advertising costs are expensed as incurred.

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, 2014.

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**NOTE 3 - INCOME TAXES – continued**

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, 2011 through 2013 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Amounts due within one year	\$ <u>101,515</u>	\$ <u>260,240</u>
Amounts due within one year for endowment	300,000	300,000
Amounts due in two to four years for endowment	-	300,000
Less discount on endowment receivable (3% rate)	<u>(8,737)</u>	<u>(25,958)</u>
Total contributions receivable for endowment	<u>291,263</u>	<u>574,042</u>
Total contributions receivable, net of discount	\$ <u>392,778</u>	\$ <u>834,282</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, 2014 and 2013.

**NOTE 5 - PROPERTY AND EQUIPMENT**

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

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 1,766,536	\$ 1,579,845
Office equipment and furniture	519,701	710,308
Land	<u>334,115</u>	<u>334,115</u>
	2,620,352	2,624,268
Less accumulated depreciation and amortization	<u>(1,574,057)</u>	<u>(1,698,045)</u>
Net property and equipment	\$ <u>1,046,295</u>	\$ <u>926,223</u>

Depreciation and amortization expense totaled \$94,018 and \$63,996 for the years ended December 31, 2014 and 2013, respectively. During the year, MEI disposed of fully depreciated equipment and software with a total cost basis of \$218,006.



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**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 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, 2014 and 2013:

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**NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS – continued**

Assets at Fair Value as of December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income bonds	\$ 1,538,529	\$ -	\$ -	\$ 1,538,529
Mutual funds	2,386,566	-	-	2,386,566
Common stocks	<u>1,468,370</u>	<u>-</u>	<u>-</u>	<u>1,468,370</u>
Total Assets at Fair Value	<u>\$ 5,393,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,393,465</u>

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	<u>1,354,429</u>	<u>-</u>	<u>-</u>	<u>1,354,429</u>
Total Assets at Fair Value	<u>\$ 4,941,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,941,728</u>

The following schedule summarizes the investment return for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 105,956	\$ 112,946
Net appreciation in fair value	<u>130,085</u>	<u>403,827</u>
Total	<u>\$ 236,041</u>	<u>\$ 516,773</u>

**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

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**NOTE 7 – ENDOWMENTS** – continued

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, 2014 and 2013, there were no deficiencies in the endowment funds.

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>
Library endowment	\$ -	\$ 150,356	\$ 1,000,000	\$ 1,150,356
Fares Award endowment:				
Investments and cash	-	164,544	1,200,000	1,364,544
Endowment funds receivable	<u>-</u>	<u>-</u>	<u>291,263</u>	<u>291,263</u>
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>	<u>Temporarily Restricted</u>	<u>Permanently 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	-	23,836	-	23,836
Net appreciation in fair value	-	69,731	-	69,731
	<u>-</u>	<u>69,731</u>	<u>-</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>

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
	<u>-</u>	<u>-</u>	<u>574,042</u>	<u>574,042</u>
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
	<u>-</u>	<u>121,825</u>	<u>-</u>	<u>121,825</u>
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 221,333</u>	<u>\$ 2,474,042</u>	<u>\$ 2,695,375</u>

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**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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 286,277	\$ 187,747
Investments	<u>2,940,549</u>	<u>2,859,465</u>
Total	<u>\$ 3,226,826</u>	<u>\$ 3,047,212</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. For the years ended December 31, 2014 and 2013, the fair value of investments totaled \$1,100,192 and \$1,105,442, respectively. The Trust also had cash totaling \$31,028 and \$17,254, for the years ended December 31, 2014 and 2013, 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.

**NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were designated by donors for the following purposes as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Program and Project Restricted:		
Sultan Qaboos Cultural Center	\$ -	\$ 341,036
Education and outreach	455,575	134,091
Public policy, outreach and communications	-	433,567
Earnings on endowments	<u>21,368</u>	<u>87,242</u>
Total	<u>\$ 476,943</u>	<u>\$ 995,936</u>

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**NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets were designated by donors for the following purposes as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
MEI annual conference, award and speaker	\$ 1,491,263	\$ 1,474,042
Support for the MEI Library	1,000,000	1,000,000
Educational scholarships – perpetual trust	<u>1,050,467</u>	<u>1,050,416</u>
Total	<u>\$ 3,541,730</u>	<u>\$ 3,524,458</u>

**NOTE 12 – IN-KIND CONTRIBUTIONS**

For the year ended December 31, 2014, MEI received in-kind airline tickets and furniture with a fair value totaling \$33,985. MEI received no in-kind contributions for the year ended December 31, 2013.

**NOTE 13 - LEASE COMMITMENTS**

MEI leases office equipment under four separate operating lease agreements which expire at the end of 2015. Rental expense, which includes insurance, totaled \$15,570 and \$9,947 for the years ended December 31, 2014 and 2013.

**NOTE 14 – SUB-LEASE INCOME**

MEI sub-leases office space on a month-to-month basis. Rental income for the years ended December 31, 2014 and 2013, totaled \$31,803 and \$25,520, respectively.

**NOTE 15 - RETIREMENT PLAN**

MEI has a 403(b) Savings Plan covering employees with at least one year of service. MEI contributes seven and one half percent on 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, 2014 and 2013, totaled \$89,215 and \$73,531, respectively.

**NOTE 16 - SUBSEQUENT EVENTS**

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through April 1, 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 further disclosure.