

THE MIDDLE EAST INSTITUTE
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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 audit 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jane Manna & McQuade PA

Washington, DC
October 10, 2017

THE MIDDLE EAST INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,173,927	\$ 2,316,116
Board designated cash	20,121,656	231,625
Total Cash and Cash Equivalents	23,295,583	2,547,741
Accounts receivable	84,530	65,881
Grants and contributions receivable	16,250	35,609
Prepaid expenses	555,945	21,704
Security deposit	1,000	12,600
Total Current Assets	23,953,308	2,683,535
 PROPERTY AND EQUIPMENT, NET	 1,838,787	 1,080,847
 OTHER ASSETS		
Investments in board designated account	3,274,013	3,033,442
Investments for endowment	2,862,046	2,656,830
Investments in beneficial interest in perpetual trust	1,122,156	1,003,586
Total Other Assets	7,258,215	6,693,858
 TOTAL ASSETS	 <u><u>\$ 33,050,310</u></u>	 <u><u>\$ 10,458,240</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 220,753	\$ 128,059
Accrued expenses	151,081	132,640
Deferred revenue	157,489	137,983
Total Liabilities	529,323	398,682
 NET ASSETS		
Unrestricted:		
Undesignated available for operations	4,351,637	2,617,113
Board designated	23,395,669	3,265,067
Total Unrestricted	27,747,306	5,882,180
Temporarily restricted	1,222,819	626,516
Permanently restricted	3,550,862	3,550,862
Total Net Assets	32,520,987	10,059,558
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 33,050,310</u></u>	 <u><u>\$ 10,458,240</u></u>

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

**THE MIDDLE EAST INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 21,949,608	\$ -	\$ -	\$ 21,949,608
Grants	29,956	923,548	-	953,504
Membership dues	29,800	-	-	29,800
Center for policy studies	2,657,626	-	-	2,657,626
Center for arts and culture	113,230	-	-	113,230
Center for education	361,776	-	-	361,776
Interest and dividends, net	74,974	98,663	-	173,637
Rental and other income	48,482	-	-	48,482
Net assets released from restrictions	574,956	(574,956)	-	-
Total Revenue and Support	25,840,408	447,255	-	26,287,663
EXPENSES				
Program services:				
Center for policy studies	2,300,702	-	-	2,300,702
Center for arts and culture	409,691	-	-	409,691
Center for education	662,269	-	-	662,269
Total Program Services	3,372,662	-	-	3,372,662
Support services:				
Fundraising	417,270	-	-	417,270
General and administrative	318,955	-	-	318,955
Total Support Services	736,225	-	-	736,225
Total Expenses	4,108,887	-	-	4,108,887
CHANGE IN NET ASSETS FROM OPERATIONS	21,731,521	447,255	-	22,178,776
OTHER CHANGES				
Net appreciation in fair value of designated investments	133,605	-	-	133,605
Net appreciation in fair value of endowment investments	-	77,454	-	77,454
Net appreciation in beneficial interest in perpetual trust	-	71,594	-	71,594
Total Other Changes	133,605	149,048	-	282,653
CHANGE IN NET ASSETS	21,865,126	596,303	-	22,461,429
NET ASSETS, beginning of year	5,882,180	626,516	3,550,862	10,059,558
NET ASSETS, end of year	\$ 27,747,306	\$ 1,222,819	\$ 3,550,862	\$ 32,520,987

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
Center for policy studies	325,304	-	-	325,304
Center for arts and culture	128,773	-	-	128,773
Center for education	463,644	-	-	463,644
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	4,187,032	(53,567)	9,132	4,142,597
EXPENSES				
Program services:				
Center for policy studies	2,563,099	-	-	2,563,099
Center for arts and culture	308,831	-	-	308,831
Center for education	509,434	-	-	509,434
Total Program Services	3,381,364	-	-	3,381,364
Support services:				
Fundraising	250,006	-	-	250,006
General and administrative	406,198	-	-	406,198
Total Support Services	656,204	-	-	656,204
Total Expenses	4,037,568	-	-	4,037,568
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	(138,972)	(171,155)	-	(310,127)
CHANGE IN NET ASSETS	10,492	(224,722)	9,132	(205,098)
NET ASSETS, beginning of year	5,871,688	851,238	3,541,730	10,264,656
NET ASSETS, end of year	\$ 5,882,180	\$ 626,516	\$ 3,550,862	\$ 10,059,558

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

THE MIDDLE EAST INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES				SUPPORT SERVICES			
	Center for Policy Studies	Center for Arts and Culture	Center for Education	Total Program Services	Fundraising	General and Administrative	Total Support Services	Total Expenses
Personnel:								
Salaries	\$ 1,370,432	\$ 138,767	\$ 448,291	\$ 1,957,490	\$ 147,111	\$ 68,654	\$ 215,765	\$ 2,173,255
Employee benefits	126,504	11,693	34,768	172,965	10,006	9,365	19,371	192,336
Payroll taxes	107,220	271	25,830	133,321	10,342	711	11,053	144,374
Subtotal Personnel	1,604,156	150,731	508,889	2,263,776	167,459	78,730	246,189	2,509,965
Advertising	5,760	1,231	288	7,279	138	403	541	7,820
Bank charges	3,166	40	15,094	18,300	859	3,325	4,184	22,484
Depreciation and amortization	51,677	12,919	38,758	103,354	12,919	12,920	25,839	129,193
Dues and subscriptions	1,356	-	583	1,939	-	-	-	1,939
Facilities, food and beverages	216,901	107,656	490	325,047	139,738	18,687	158,425	483,472
Insurance	18,449	4,612	16,312	39,373	4,612	4,612	9,224	48,597
Occupancy	38,299	9,575	30,450	78,324	9,575	9,574	19,149	97,473
Miscellaneous	-	200	-	200	-	300	300	500
Postage and delivery	1,601	1,507	90	3,198	7	3,853	3,860	7,058
Printing and publications	32,513	5,131	2,240	39,884	6,414	6,772	13,186	53,070
Professional services	215,430	18,391	3,419	237,240	34,537	114,558	149,095	386,335
Repairs and maintenance	-	-	7,650	7,650	-	19,237	19,237	26,887
Supplies and equipment	4,969	7,080	13,022	25,071	3,600	42,180	45,780	70,851
Telecommunications	49,345	2,758	8,828	60,931	2,746	2,747	5,493	66,424
Travel and entertainment	57,080	87,860	16,156	161,096	34,666	1,057	35,723	196,819
Total	\$ 2,300,702	\$ 409,691	\$ 662,269	\$ 3,372,662	\$ 417,270	\$ 318,955	\$ 736,225	\$ 4,108,887

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			
	Center for Policy Studies	Center for Arts and Culture	Center for Education	Total Program Services	Fundraising	General and Administrative	Total Support Services	Total Expenses
Personnel:								
Salaries	\$ 1,021,197	\$ 178,328	\$ 344,137	\$ 1,543,662	\$ 131,096	\$ 227,188	\$ 358,284	\$ 1,901,946
Employee benefits	76,713	57,607	29,614	163,934	17,685	11,553	29,238	193,172
Payroll taxes	55,820	13,188	26,080	95,088	9,987	27,491	37,478	132,566
Subtotal Personnel	1,153,730	249,123	399,831	1,802,684	158,768	266,232	425,000	2,227,684
Advertising	334	-	680	1,014	450	1,559	2,009	3,023
Bad debt expense	682	2,505	17,201	20,388	-	162	162	20,550
Bank charges	-	3,114	19,127	22,241	-	3,474	3,474	25,715
Depreciation and amortization	69,417	6,941	15,040	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	299,659	870	70	300,599	227	11,315	11,542	312,141
Insurance	27,409	2,740	9,618	39,767	2,740	8,217	10,957	50,724
Occupancy	67,845	2,532	7,341	77,718	2,532	7,602	10,134	87,852
Miscellaneous	7,649	-	-	7,649	-	-	-	7,649
Postage and delivery	1,274	21,641	148	23,063	-	3,199	3,199	26,262
Printing and publications	15,332	7,988	60	23,380	3,586	945	4,531	27,911
Professional services	358,955	-	1,450	360,405	60,000	62,819	122,819	483,224
Repairs and maintenance	46,527	4,652	19,112	70,291	4,652	2,603	7,255	77,546
Supplies and equipment	31,440	165	7,272	38,877	3,180	15,199	18,379	57,256
Telecommunications	54,752	4,562	9,885	69,199	4,562	2,281	6,843	76,042
Travel and entertainment	428,094	1,660	2,599	432,353	2,368	2,208	4,576	436,929
Total	\$ 2,563,099	\$ 308,831	\$ 509,434	\$ 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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 22,461,429	\$ (205,098)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	129,193	115,694
Net depreciation (appreciation) in fair value on investments	(282,653)	310,127
Change in beneficial interest in perpetual trust	(118,570)	96,606
Permanently restricted contributions	-	(9,132)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(18,649)	94,904
Prepaid expenses	(534,241)	13,584
Grants and contributions receivable	19,359	65,906
Security deposits	11,600	(7,400)
Increase (decrease) in liabilities:		
Accounts payable	92,694	(18,725)
Accrued expenses	18,441	(13,730)
Deferred revenue	19,506	(40,721)
Net Cash Provided by Operating Activities	<u>21,798,109</u>	<u>402,015</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(887,133)	(150,246)
Proceeds from sale of investments	2,223,844	2,451,830
Purchases of investments	(2,505,548)	(2,962,158)
Net Cash Used for Investing Activities	<u>(1,168,837)</u>	<u>(660,574)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	-	9,132
Beneficial interest in perpetual trust	118,570	(96,606)
Contributions receivable for endowment	-	291,263
Net Cash Provided by Financing Activities	<u>118,570</u>	<u>203,789</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,747,842	(54,770)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,547,741</u>	<u>2,602,511</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 23,295,583</u></u>	<u><u>\$ 2,547,741</u></u>

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

**THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

Center for Policy Studies (formally, Public Policy and Communications): MEI experts regularly brief policymakers, US and foreign diplomats, 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 special focus areas that track ongoing developments in critical areas.

MEI's new TV studio will enable 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 has been connecting audiences in the nation's capital to the vibrant and cutting-edge artistic scene emerging from the region. MEI promotes the work of these young artists, connects them with their American counterparts, and has created a destination in Washington known for dynamic cultural programs focused on the region.

MEI Center for Education (formerly, Language Programs, *The Middle East Journal* and Publications, Education and Outreach, and Library): 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 a 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 professional development seminars to top university students and recent graduates who work alongside MEI staff and scholars on research projects, public programs, development initiatives, and events.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

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:

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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition - continued

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.

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 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.

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.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 financial statement presentation, which included netting investment fees against investment income.

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, 2016 and 2015, 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, 2013 through 2015 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 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Building and improvements	\$ 1,747,720	\$ 1,741,897
Office equipment and furniture	696,026	694,586
Land	334,115	334,115
Construction - work in progress	879,870	-
	<u>3,657,731</u>	<u>2,770,598</u>
Less accumulated depreciation and amortization	(1,818,944)	(1,689,751)
Property and Equipment, Net	<u>\$ 1,838,787</u>	<u>\$ 1,080,847</u>

Depreciation and amortization expense totaled \$129,193 and \$115,694 for the years ended December 31, 2016 and 2015, respectively.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE 5 - 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.

- | | |
|----------------|---|
| <i>Level 1</i> | Inputs are based on unadjusted quoted prices for identical assets traded in active markets that MEI has the ability to access. |
| <i>Level 2</i> | 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. |
| <i>Level 3</i> | 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.

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, which use a variety of pricing sources to determine market valuations, including indexes for each sector of the market.

THE MIDDLE EAST INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(continued)

NOTE 5 - FAIR VALUE MEASUREMENTS – continued

The following tables present MEI's fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2016 and 2015:

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and				
preferred stock	\$ 345,981	\$ -	\$ -	\$ 345,981
Corporate bonds	-	40,906	-	40,906
Certificates of deposit	-	182,862	-	182,862
Money market funds	18,320	-	-	18,320
Mutual funds:				
Fixed income	1,913,823	-	-	1,913,823
Equity	1,628,742	-	-	1,628,742
Exchange traded funds	3,127,581	-	-	3,127,581
Total Assets at Fair Value	<u>\$ 7,034,447</u>	<u>\$ 223,768</u>	<u>\$ -</u>	<u>\$ 7,258,215</u>

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	<u>\$ 6,474,876</u>	<u>\$ 218,982</u>	<u>\$ -</u>	<u>\$ 6,693,858</u>

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NOTE 6 - 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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(continued)

NOTE 6 - 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, 2016 and 2015, there were no deficiencies in the endowment funds.

MEI's endowment net assets consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:				
Library endowment	\$ -	\$ 185,709	\$ 1,000,000	\$ 1,185,709
Fares Award endowment	<u>-</u>	<u>215,090</u>	<u>1,500,000</u>	<u>1,715,090</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 400,799</u>	<u>\$ 2,500,000</u>	<u>\$ 2,900,799</u>

Changes in the endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2015	\$ -	\$ 245,316	\$ 2,500,000	\$ 2,745,316
Interest and dividends (less fees of \$20,907)	-	78,029	-	78,029
Net appreciation in fair value	<u>-</u>	<u>77,454</u>	<u>-</u>	<u>77,454</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 400,799</u>	<u>\$ 2,500,000</u>	<u>\$ 2,900,799</u>

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	<u>-</u>	<u>120,398</u>	<u>1,500,000</u>	<u>1,620,398</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 245,316</u>	<u>\$ 2,500,000</u>	<u>\$ 2,745,316</u>

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NOTE 6 - ENDOWMENTS – continued

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	<u>-</u>	<u>(143,085)</u>	<u>-</u>	<u>(143,085)</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 245,316</u>	<u>\$ 2,500,000</u>	<u>\$ 2,745,316</u>

NOTE 7 - 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. In October 2016, MEI received \$20,000,000 for capital campaign to build a new building for general operations. The Board Designated Special Purpose Fund consists of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 20,000,000	\$ -
Special purposes	<u>3,395,669</u>	<u>3,265,067</u>
Total	<u>\$ 23,395,669</u>	<u>\$ 3,265,067</u>

NOTE 8 - 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, 2016 and 2015. As of December 31, 2016 and 2015, the fair value of investments totaled \$1,122,156 and \$1,003,586, respectively.

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NOTE 8 - BENEFICIAL INTEREST IN PERPETUAL TRUST – continued

The Trust also held cash totaling \$30,618 and \$88,962, as of December 31, 2016 and 2015, respectively, which is included in board designated cash on the statements of financial position. The original principal of the Trust is included as permanently restricted net assets in the statements of activities.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were designated by donors for the following purposes as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Education and outreach	\$ 720,108	\$ 339,516
Endowments	400,799	245,316
Beneficial interest in perpetual trust - scholarships	<u>101,912</u>	<u>41,684</u>
Total	<u>\$ 1,222,819</u>	<u>\$ 626,516</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were designated by donors for the following purposes as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
MEI annual conference, award and speaker	\$ 1,500,000	\$ 1,500,000
Support for the MEI Library	1,000,000	1,000,000
Beneficial interest in perpetual trust	<u>1,050,862</u>	<u>1,050,862</u>
Total	<u>\$ 3,550,862</u>	<u>\$ 3,550,862</u>

NOTE 11 – IN-KIND CONTRIBUTIONS

For the years ended December 31, 2016 and 2015, MEI received in-kind airline tickets and furniture with a fair value totaling \$0 and \$84,834, respectively.

NOTE 12 - LEASE COMMITMENTS

MEI leases office equipment under four separate operating lease agreements, which expired at the end of 2015. After the leases expired, MEI continued to lease the office equipment on a month-to-month basis. In April 2017, MEI renewed one of its existing office equipment leases for an additional term of 63 months at monthly fee of \$50. For the years ended December 31, 2016 and 2015, rental expense, which includes insurance, totaled \$5,833 and \$15,200, respectively.

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NOTE 12 - LEASE COMMITMENTS – continued

In December 2016, MEI entered into a two year lease agreement for office space. The lease became effective on February 1, 2017, which expires on January 31, 2019. The lease includes a 4% per annum escalation clause. MEI made an advanced payment for the first year's lease in the amount of \$470,000, and is included in prepaid expenses. The minimum future lease commitments are as follows as of December 31:

2017	\$ -
2018	448,067
2019	40,733
Total	<u>\$ 488,800</u>

NOTE 13 – SUB-LEASE INCOME

MEI sub-leases office space on a month-to-month basis. Rental income for the years ended December 31, 2016 and 2015, totaled \$37,000 and \$40,000, respectively.

NOTE 14 - 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, 2016 and 2015, totaled \$94,126 and \$92,963, respectively.

NOTE 15 - SUBSEQUENT EVENTS

In preparing these financial statements, MEI has evaluated events and transactions for potential recognition or disclosure through October 10, 2017, the date the financial statements were available to be issued. Other than the renewed equipment lease agreement referenced in Note 12, there were no additional events or transactions that were discovered during the evaluation that required additional recognition or disclosure.