

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Financial Statements

December 31, 2018

(With Independent Auditors' Report Thereon)



An Independent CPA Firm

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Financial Statements

December 31, 2018

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An Independent CPA Firm

Board of Directors
Institute for Middle East Understanding
Santa Ana, California

INDEPENDENT AUDITORS' REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Institute for Middle East Understanding (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 of material misstatement.

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 risks 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 Institute for Middle East Understanding as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described further in note one to the financial statements, during the year ended December 31, 2018, Institute for Middle East Understanding implemented Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, CA
April 23, 2019

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Statement of Financial Position

December 31, 2018

Assets

Cash and cash equivalents	\$ 1,245,244
Pledges receivable	285,854
Other assets	220
Certificate of deposit	100,000
Property, furniture and equipment, net	<u>8,780</u>
Total assets	<u>\$ 1,640,098</u>

Liabilities and Net Assets

Accounts payable	\$ 10,015
Accrued vacation	<u>49,949</u>
Total liabilities	<u>59,964</u>

Net assets (Note 6):

With donor restrictions	-
Without donor restrictions - undesignated	<u>1,580,134</u>
Total net assets	<u>1,580,134</u>

Total liabilities and net assets	<u>\$ 1,640,098</u>
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See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
Statement of Activities
Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities:			
Revenues and other support:			
Contributions	\$ 1,199,784		1,199,784
Special events:			
Annual gala- (gross revenue of \$764,777 less \$165,305 direct expenses)	599,472	-	599,472
Interest income	<u>33</u>	<u>-</u>	<u>33</u>
Subtotal	<u>1,799,289</u>	<u>-</u>	<u>1,799,289</u>
Net assets released from donor restrictions (Note 3)	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,799,289</u>	<u>-</u>	<u>1,799,289</u>
Expenses:			
Program services	<u>1,624,323</u>	<u>-</u>	<u>1,624,323</u>
Supporting services:			
General and administrative	65,508	-	65,508
Fundraising	<u>90,425</u>	<u>-</u>	<u>90,425</u>
Subtotal supporting services	<u>155,933</u>	<u>-</u>	<u>155,933</u>
Total expenses	<u>1,780,256</u>	<u>-</u>	<u>1,780,256</u>
Change in net assets from operations	<u>19,033</u>	<u>-</u>	<u>19,033</u>
Non-operating activities:			
Investment income	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	19,033	-	19,033
Net assets at beginning of year	<u>1,561,101</u>	<u>-</u>	<u>1,561,101</u>
Net assets at end of year	<u>\$ 1,580,134</u>	<u>-</u>	<u>1,580,134</u>

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
Statement of Functional Expenses
Year Ended December 31, 2018

	Program	Supporting Services			Total
		General and Administrative	Fundraising	Subtotal	
Salaries and related expenses:					
Salaries	\$ 862,221	47,901	47,901	95,802	958,023
Employee benefits	1,419	79	79	158	1,577
Payroll taxes	71,225	3,957	3,957	7,914	79,139
Total salaries and related expenses	934,865	51,937	51,937	103,874	1,038,739
Other expenses:					
Professional services	225,205	-	-	-	225,205
Computer supplies and equipment	12,449	393	262	655	13,104
Training and counseling	40,582	-	-	-	40,582
Web design and hosting	-	-	8,266	8,266	8,266
Advertising	-	-	3,643	3,643	3,643
Printing and postage	1,747	437	8,735	9,172	10,919
Rent -facilities	42,815	1,352	901	2,253	45,068
Interest	-	226	-	226	226
Utilities and telephone	6,361	748	374	1,122	7,483
Office supplies	15,856	2,265	4,530	6,795	22,651
Accounting and audit	6,612	827	827	1,654	8,266
License fees, bank fees and other fees	30,037	6,007	4,005	10,012	40,049
Taxes -other	-	385	-	385	385
Insurance	5,650	665	332	997	6,647
Meetings, travel, and related	125,656	-	6,613	6,613	132,269
Venue and event related	-	-	165,305	165,305	165,305
Bad debt expense	174,098	-	-	-	174,098
Total other expenses	687,068	13,305	203,793	217,098	904,166
Total expenses before depreciation	1,621,933	65,242	255,730	320,972	1,942,905
Depreciation	2,390	266	-	266	2,656
Total expenses	\$1,624,323	65,508	255,730	321,238	1,945,561
Less expenses included in statement of activities	\$ -	-	(165,305)	(165,305)	(165,305)
Total expenses per statement of activities	\$1,624,323	65,508	90,425	155,933	1,780,256

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Statement of Cash Flows

Year Ended December 31, 2018

	<u>2018</u>
Cash flows from operating activities:	
Change in net assets	\$ 19,033
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	2,656
Donated inventory	-
Decrease (increase) in pledges receivable	304,289
Decrease (increase) in prepaid expenses	3,732
Decrease (increase) in other assets	(220)
(Decrease) increase in account payable	(27,859)
(Decrease) increase in accrued vacation	<u>5,582</u>
Net cash provided by (used for) operating activities	<u>307,213</u>
Cash flows from investing activities:	
Acquisition of property, furniture and equipment	(4,330)
Purchase of investments	<u>-</u>
Net cash provided by (used for) investing activities	<u>(4,330)</u>
Increase (decrease) in cash and cash equivalents	302,883
Cash and cash equivalents at beginning of year	<u>942,361</u>
Cash and cash equivalents at end of year	<u>\$1,245,244</u>
<u>Supplemental disclosure of cash flow information:</u>	
Cash paid for interest expense	<u>\$ 226</u>

There were no non-cash investing or financing activities for the year ended December 31, 2018

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - ORGANIZATION

The significant accounting policies of the Institute for Middle East Understanding (the Institute) are presented to assist in the understanding of the Institute's financial statements. The financial statements and notes are representations of the Institute's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Institute for Middle East Understanding is a 501(c)(3) nonprofit organization and was incorporated in the state of California in February of 2005. The Institute's mission is to provide journalists with quick access to information about Palestine and the Palestinians, as well as expert sources both in the United States and in the Middle East; and to work, both through its website and its staff with journalists to increase the public's understanding about the socio-economic, political and cultural aspects of Palestine, Palestinians and Palestinian Americans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Institute's financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Update (ASU) 2016-14 Not for Profit Entities [Topic 958]- Presentation of Financial Statements of Not-For Profit Entities*, Institute of Middle East Understanding is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Institute for Middle East Understanding's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Institute for Middle East Understanding or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Institute considers all unrestricted short-term investments with an original maturity of three (3) months or less to be cash equivalents. Cash and cash equivalents consisted of deposits with financial institutions of \$1,245,244 at December 31, 2018, which at times exceed amounts covered by the insurance provided by the Federal Deposit Insurance Corporation (FDIC).

Certificate of Deposit

As of December 31, 2018, the Company owns a certificate of deposit in the amount of \$100,000. The 58 month certificate matures in April 2020 at a rate of interest of approximately 2 percent per annum. Because the term of the certificate is greater than three months, it is not included by the Company as a cash equivalent for purposes of the statement of cash flows.

Concentration of Risk

The Institute actively evaluates the credit worthiness of the institutions with which it invests. Approximately 37% of total pledges receivable were provided by one donor.

Property and Equipment

Property and equipment are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Total depreciation expense for the year ended December 31, 2018 was \$2,656. Donations of long-lived assets are recorded as contributions at their estimated fair values. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose in which case they are recorded as restricted contributions until such restriction expires. Repairs and maintenance to property, plant and equipment are expensed as incurred. When property, plant and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in income. It is the Institute's policy to capitalize property and equipment over \$5,000.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Property and equipment consisted of the following at December 31, 2018:

Equipment	19,637
	<u>19,637</u>
Less: Accumulated depreciation	(10,857)
Property and equipment, net	<u><u>\$8,780</u></u>

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Institute evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Restricted and Unrestricted Revenue and Support

In accordance with ASC 958, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements requires the Institute to make estimates and assumptions that affect the reported amounts of assets and disclosures of contingent assets and liabilities, and the reported revenue and expenses. Actual results may differ from those estimates.

Fair Value Measurements

The Institute follows guidance issued by the *ASC 820 Fair Value Measurements*. The Institute's financial instruments, including cash and cash equivalents, pledge receivable, certificate of deposit, and accounts payable are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Income Tax Status

The Institute is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The Institute's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2017, 2016, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expense Allocation

Costs of providing Institute of Middle East Understanding's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, benefits, payroll taxes	Time and effort
Rent – facilities	Square footage
Utilities and telephone	Square footage
Office and computer supplies	Time and effort
Accounting and audit	Time and effort
Repairs and maintenance	Square footage
Transportation and travel	Time and effort
Insurance	Time and effort
Meetings and Travel	Time and effort
Printing and postage	Time and effort
License and fees	Time and effort
Depreciation	Square footage

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 2018, Institute of Middle East Understanding's contributions receivable consisted of unconditional promises to give in the amount of \$285,854 all of which are expected to be collected within one year.

Accrued Vacation

Employees of the Institute are entitled to paid vacation days. The Institute's management estimated the amount of compensation for future absences to be \$49,949 as of December 31, 2018.

Advertising Costs

Total advertising costs for the year ended December 31, 2018 was \$3,643.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Institute of Middle East Understanding's ongoing program services and interest and deposits. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Institute of Middle East Understanding has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2018, \$0 of net assets were released from donor restricted net assets as follows;

Restricted for:	<u>Donor Restricted Net Assets- Beginning of Year</u>	<u>Donor Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Donor Restricted Net Assets- End of Year</u>
None	\$ <u>-</u>	<u>-</u>	<u>(-)</u>	\$ <u>-</u>

NOTE 4 - DONATED SERVICES AND SUPPLIES

Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. For the year ended December 31, 2018, the Institute did not receive any services or supplies that were required to be recognized.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Operating Leases – Institute of Middle East Understanding leases two office facilities under a non-cancelable operating lease. The Santa Ana, CA lease commenced in 2011 and expired on March 31, 2018 with total base monthly payments of approximately \$1,200 month. The term is now month to month. The Brooklyn, NY lease commenced in 2011 and the term is month to month with total base monthly payments of approximately \$2,600 month. Rent Expense associated with both facility leases (which included certain parking and utilities) for the year ended December 31, 2018 totaled \$45,068.

Other - The Institute is subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the Institute's financial statements.

NOTE 6 - AVAILABILITY AND LIQUIDITY

The following represents Institute of Middle East Understanding financial assets at December 31, 2018:

Financial assets at year end:

Cash and cash equivalents	\$1,245,244
Pledge receivable	285,854
Other assets	220
Certificate of deposit	<u>100,000</u>
Total financial assets	<u>1,631,318</u>

Less amounts not available
to be used within 1 year:

Net assets with donor restrictions	-
Less net assets with purpose restrictions to be met within one year	<u>(-)</u>
Subtotal	<u>-</u>

Financial assets available to meet
general expenses over the next
12 months: \$1,631,318

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - EMPLOYEE PENSION PLAN

The Institute of Middle East Understanding has a defined contribution 401(k) profit sharing plan covering all eligible employees who have met the eligibility requirement. The Institute may make discretionary contributions to the plan at its option. Employees may contribute up to \$18,000 of gross earnings for the calendar year 2018, and their contributions are 100% vested. For calendar year 2018, \$6,000 is allowed as catch-up contribution for employees with ages of 50 and older. There were no discretionary contributions made by the Institute for fiscal year ended December 31, 2018.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 23, 2019 the date the financial statements were available to be issued.