

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Financial Statements

December 31, 2021

(With Independent Auditors' Report Thereon)

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Financial Statements

December 31, 2021

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7



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

INDEPENDENT AUDITORS' REPORT

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Institute for Middle East Understanding as of December 31, 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute for Middle East Understanding's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute for Middle East Understanding's ability to continue as a going concern for a reasonable period of time.

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

Gruber and Lopez, Inc.

Gruber and Lopez, Inc.

Newport Beach, CA
November 10, 2022

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Statement of Financial Position

December 31, 2021

Assets

Cash and cash equivalents	\$ 2,600,827
Contributions receivable	103,423
Deposits and other assets	20,000
Certificate of deposit	111,495
Property, furniture and equipment, net	<u>10,201</u>
Total assets	<u>\$ 2,845,946</u>

Liabilities and Net Assets

Accounts payable and accrued liabilities	\$ 41,546
Accrued vacation	63,884
SBA PPP loan	<u>206,600</u>
Total liabilities	<u>312,030</u>

Net assets:

With donor restrictions	-
Without donor restrictions - undesignated	<u>2,533,916</u>
Total net assets	<u>2,533,916</u>

Total liabilities and net assets	<u>\$ 2,845,946</u>
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See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
Statement of Activities
For The Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities:			
Revenues and other support:			
Contributions	\$ 1,820,887	-	1,820,887
Special events:			-
Annual gala- (gross revenue of \$646,323 less \$31,522 direct expenses)	614,801	-	614,801
Miscellaneous	6,480		6,480
Interest income	170	-	170
	<u>2,442,338</u>	<u>-</u>	<u>\$ -</u>
Subtotal	<u>2,442,338</u>	<u>-</u>	<u>2,442,338</u>
Net assets released from donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,442,338</u>	<u>-</u>	<u>2,442,338</u>
Expenses:			
Program services	<u>1,377,804</u>	<u>-</u>	<u>1,377,804</u>
Supporting services:			
General and administrative	88,306	-	88,306
Fundraising	117,277	-	117,277
Subtotal supporting services	<u>205,582</u>	<u>-</u>	<u>205,582</u>
Total expenses	<u>1,583,386</u>	<u>-</u>	<u>1,583,386</u>
Change in net assets from operations	<u>858,952</u>	<u>-</u>	<u>858,952</u>
Non-operating activities:			
Investment income	<u>11,494</u>	<u>-</u>	<u>11,494</u>
Total non-operating activities	<u>11,494</u>	<u>-</u>	<u>11,494</u>
Change in net assets	870,446	-	870,446
Net assets at beginning of year	<u>1,663,470</u>	<u>-</u>	<u>1,663,470</u>
Net assets at end of year	<u>\$ 2,533,916</u>	<u>-</u>	<u>2,533,916</u>

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
Statement of Functional Expenses
For The Year Ended December 31, 2021

	Program	Supporting Services			Total
		General and Administrative	Fundraising	Subtotal	
Salaries and related expenses:					
Salaries	\$ 983,163	54,620	54,620	109,240	1,092,403
Employee benefits	91,143	5,064	5,064	10,127	101,270
Payroll taxes	81,232	4,513	4,513	9,026	90,258
Total salaries and related expenses	<u>1,155,538</u>	<u>64,197</u>	<u>64,197</u>	<u>128,393</u>	<u>1,283,931</u>
Other expenses:					
Professional services	59,302	-	-	-	59,302
Computer supplies and equipment	12,709	401	268	669	13,378
Advertising-web design and hosting	-	-	39,208	39,208	39,208
Printing and postage	432	108	2,162	2,270	2,702
Rent -facilities	15,328	484	323	807	16,135
Legal fees	-	13,060	-	13,060	13,060
Utilities and telephone	10,260	1,207	604	1,811	12,071
Office supplies	23,412	3,345	6,689	10,034	33,446
Accounting and audit	10,802	1,350	1,350	2,700	13,502
License fees, bank fees and other fees	13,931	2,786	1,858	4,644	18,575
Insurance	5,676	668	334	1,002	6,678
Meetings, travel, and training	13,478	426	284	710	14,188
Venue and event related	-	-	31,522	31,522	31,522
Bad debt expense	54,471	-	-	-	54,471
Total other expenses	<u>219,801</u>	<u>23,835</u>	<u>84,602</u>	<u>108,437</u>	<u>328,238</u>
Total expenses before depreciation	<u>1,375,339</u>	<u>88,032</u>	<u>148,799</u>	<u>236,830</u>	<u>1,612,169</u>
Depreciation	<u>2,465</u>	<u>274</u>	<u>-</u>	<u>274</u>	<u>2,739</u>
Total expenses	<u>\$1,377,804</u>	<u>88,306</u>	<u>148,799</u>	<u>237,104</u>	<u>1,614,908</u>
Less expenses included in statement of activities	<u>\$ -</u>	<u>-</u>	<u>(31,522)</u>	<u>(31,522)</u>	<u>(31,522)</u>
Total expenses per statement of activities	<u>\$1,377,804</u>	<u>88,306</u>	<u>117,277</u>	<u>205,582</u>	<u>1,583,386</u>

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING

Statement of Cash Flows

For The Year Ended December 31, 2021

Cash flows from operating activities:	
Change in net assets	\$ 870,446
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	2,739
Bad debt	54,471
Decrease (increase) in contributions receivable	(38,881)
Decrease (increase) in deposits and other assets	-
(Decrease) increase in account payable	(2,144)
(Decrease) increase in accrued vacation	<u>(45)</u>
Net cash provided by (used for) operating activities	<u>886,586</u>
Cash flows from investing activities:	
Acquisition of property, furniture and equipment	<u>(8,759)</u>
Net cash provided by (used for) investing activities	<u>(8,759)</u>
Cash flows from financing activities:	
Proceeds from SBA PPP loan	<u>206,600</u>
Net cash provided by (used for) financing activities	<u>206,600</u>
Increase (decrease) in cash and cash equivalents	1,084,427
Cash and cash equivalents at beginning of year	<u>1,516,400</u>
Cash and cash equivalents at end of year	<u>\$ 2,600,827</u>

Supplemental disclosure of cash flow information:

Cash paid for interest expense	<u>\$ -</u>
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There were no non-cash investing or financing activities for the year ended December 31, 2021

See accompanying notes to financial statements.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 each performance obligation has been satisfied 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
DECEMBER 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Risk

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 \$1,516,400 at December 31, 2021, which at times exceed amounts covered by the insurance provided by the Federal Deposit Insurance Corporation (FDIC). The Institute actively evaluates the credit worthiness of the institutions with which it invests.

Certificate of Deposit

As of December 31, 2021, the Institute owns a certificate of deposit in the amount of \$111,495. The 58 month certificate matures in April 2024 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.

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, 2021 was \$2,739. 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, 2021:

Equipment	\$28,395
Less: Accumulated depreciation	<u>(18,194)</u>
Property and equipment, net	<u>\$10,201</u>

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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.

Contribution 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.

Conditional contributions are not included as support until the conditions are met.

Contributions 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, 2021, Institute of Middle East Understanding's contributions receivable consisted of unconditional promises to give in the amount of \$103,423 most of which were collected in the subsequent fiscal year.

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 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

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 \$63,884 as of December 31, 2021.

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.

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.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs mainly consisted of website design and hosting which are expensed when incurred. Total advertising costs for the year ended December 31, 2021 was \$39,208.

NOTE 3 - NET ASSETS

During the year ended December 31, 2021, \$0 of net assets were released from donor restricted net assets. Total unrestricted net assets as of December 31, 2021 was \$2,534,048 and was classified as undesignated.

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, 2021, the Institute did not receive any services or supplies that were required to be recognized.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Operating Leases – Institute of Middle East Understanding leases an office facility under a non-cancelable operating lease in Ramallah, Palestine. The lease commenced in 2021 and expires on March 30, 2023 with total base monthly payments of approximately \$600 per month. The Institute also rents shared office space in Santa Ana, CA for approximately \$700 per month and is month to month. Rent Expense associated with both facility leases for the year ended December 31, 2021 totaled \$16,135. Total future minimum lease payments were as follows:

December 31:

2022	\$7,800
2023	1,950

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.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6 - AVAILABILITY AND LIQUIDITY

The following represents Institute of Middle East Understanding financial assets at December 31, 2021:

Financial assets at year end:

Cash and cash equivalents	\$2,600,827
Contributions receivable	103,423
Certificate of deposit	<u>111,495</u>
Total financial assets	<u>2,815,745</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:

\$2,815,745

The Institute's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$400,000). As part of its liquidity plan, excess cash is invested in certificates of deposit and money market savings.

NOTE 7 - Small Business Administration (SBA) Loan – Payroll Protection Plan

In March 2020, Congress passed the Paycheck Protection Program (PPP), authorizing loans to small businesses for use in paying employees that they continue to employ throughout the COVID-19 pandemic and for rent, utilities and interest on mortgages. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met.

In February 2021, the Institute received a loan in the amount of \$206,600 through the PPP. To the extent it is not forgiven, Institute would be required to repay that portion at an interest rate of 1% over a period of two years, beginning February 2021, with a final installment in May 2023.

As of December 31, 2021, the loan balance was \$206,600. Final approval of the loan forgiveness was granted by the Small Business Administration in September 2022.

INSTITUTE FOR MIDDLE EAST UNDERSTANDING
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 - 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 \$19,500 of gross earnings for the calendar year 2021, and their contributions are 100% vested. For calendar year 2021, \$6,500 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, 2021.

NOTE 9 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value Measurements

The Institute follows guidance issued by the ASC 820 *Fair Value Measurements*, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. This guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3. Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable. Level 3 inputs are unobservable and are given the lowest priority.

The Institute did not have any investments as of December 31, 2021. The Institute's other financial instruments, including cash and cash equivalents, contributions receivable, and accounts payable and other accrued expenses are carried at cost, which approximates fair value because of the short-term nature of these instruments.

NOTE 9 - SUBSEQUENT EVENTS

The Organization's operations may be affected by the recent and ongoing outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, possible effects may include, but are not limited to, a reduction in contributions which could have an impact on their operating results. There is uncertainty as to the severity and longevity of the outbreak and management is in the process of evaluating the impact on the organization and its financial statements. However, management believes the pandemic will not have a material effect on its operations due to certain operational changes made by the Institute in response to the global pandemic and receipt and forgiveness of the PPP funding described above. Hence, no corresponding adjustment has been made to these financial statements.

Management has evaluated subsequent events through November 10, 2022 the date the financial statements were available to be issued.