

FINANCIAL STATEMENTS

SEARCH FOR COMMON GROUND

**FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005**

SEARCH FOR COMMON GROUND

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Search for Common Ground
Washington, D.C.

We have audited the accompanying statements of financial position of Search for Common Ground as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Search for Common Ground's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Search for Common Ground, as of December 31, 2006 and 2005 and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007 on our consideration of Search for Common Ground's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 4, 2007

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

SEARCH FOR COMMON GROUND
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006 AND 2005

	ASSETS	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 1,160,777	\$ 842,802
Grants receivable (Note 5)	11,766,817	6,897,224
Pledges receivable	274,750	244,908
Other receivables	13,079	23,879
Other advances	128	31,916
Prepaid expenses	<u>65,361</u>	<u>29,871</u>
Total current assets	<u>13,280,912</u>	<u>8,070,600</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment	272,614	493,148
Less: Accumulated depreciation	<u>(187,783)</u>	<u>(380,118)</u>
Net furniture and equipment	<u>84,831</u>	<u>113,030</u>
OTHER ASSETS		
Deposits	<u>31,500</u>	<u>32,500</u>
TOTAL ASSETS	<u>\$13,397,243</u>	<u>\$8,216,130</u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Note payable (Note 7)	\$ 1,000,000	\$ -
Accounts payable	392,411	370,567
Other accrued expenses (Note 4)	<u>1,022,702</u>	<u>620,269</u>
Total current liabilities	<u>2,415,113</u>	<u>990,836</u>
NET ASSETS		
Unrestricted (Note 6):		
Board designated for reserve	78,553	325,000
Undesignated	<u>-</u>	<u>16,619</u>
Total unrestricted	78,553	341,619
Temporarily restricted (Note 3)	<u>10,903,577</u>	<u>6,883,675</u>
Total net assets	<u>10,982,130</u>	<u>7,225,294</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$13,397,243</u>	<u>\$8,216,130</u>

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grant revenue	\$ 712,105	\$ 18,007,593	\$ 18,719,698
Donations and contributions	1,395,517	-	1,395,517
Interest	12,983	-	12,983
Other	158,337	-	158,337
In-kind contributions	-	-	-
Net assets released from restrictions - satisfaction of donor-imposed restrictions (Note 3)	13,987,691	(13,987,691)	-
Total revenue and support	<u>16,266,633</u>	<u>4,019,902</u>	<u>20,286,535</u>
EXPENSES			
Program Services	15,821,173	-	15,821,173
Fundraising	462,981	-	462,981
Management and General	245,545	-	245,545
Total expenses	<u>16,529,699</u>	<u>-</u>	<u>16,529,699</u>
Changes in net assets before other item	(263,066)	4,019,902	3,756,836
OTHER ITEMS			
De-obligation of funds and funds returned to donors	-	-	-
Changes in net assets	(263,066)	4,019,902	3,756,836
Net assets at beginning of year	341,619	6,883,675	7,225,294
NET ASSETS AT END OF YEAR	<u>\$ 78,553</u>	<u>\$ 10,903,577</u>	<u>\$ 10,982,130</u>

See accompanying notes to financial statements.

2005		
Unrestricted	Temporarily Restricted	Total
\$ 616,850	\$ 11,257,995	\$11,874,845
538,439	-	538,439
4,717	-	4,717
174,447	-	174,447
18,024	-	18,024
<u>15,755,946</u>	<u>(15,755,946)</u>	<u>-</u>
<u>17,108,423</u>	<u>(4,497,951)</u>	<u>12,610,472</u>
16,846,526	-	16,846,526
417,063	-	417,063
14,838	-	14,838
<u>17,278,427</u>	<u>-</u>	<u>17,278,427</u>
(170,004)	(4,497,951)	(4,667,955)
<u>-</u>	<u>(123,604)</u>	<u>(123,604)</u>
(170,004)	(4,621,555)	(4,791,559)
<u>511,623</u>	<u>11,505,230</u>	<u>12,016,853</u>
<u>\$ 341,619</u>	<u>\$ 6,883,675</u>	<u>\$ 7,225,294</u>

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

Program Services

	Search USA	Macedonia	Middle East	Morocco	Burundi	Congo	Angola	Indonesia	Ivory Coast	Guinea	Liberia and MRU	Sierra Leone
Salaries and benefits	\$ 593,656	\$ 260,173	\$ 321,694	\$ 46,400	\$ 417,312	\$ 330,716	\$ 213,023	\$ 39,735	\$ 66,255	\$ 8,099	\$ 291,754	\$ 455,026
Consultants and professional services	73,457	17,752	1,096,426	10,839	54,795	158,813	200	4,161	8,465	8,721	26,926	17,045
Passthroughs and subgrants	192,428	13	114,612	6,155	9	8,136	168	-	-	515	-	97,074
Telephone/internet	8,331	12,537	28,378	5,290	101,479	47,495	15,351	1,871	6,891	2,188	16,053	39,784
Office Expense	1,415	40,089	8,338	5,951	59,730	78,799	43,161	1,816	1,399	5,352	37,857	91,385
Miscellaneous	(190)	27,057	40,890	29,469	(29,614)	45,586	76,985	137,060	(22,012)	(32,072)	26,231	49,551
Bank charges and other fees	-	-	6,573	835	(208)	1,884	-	1,312	-	86	175	-
Printing	6,516	29,101	901	29	3,454	72,960	66	162	119	83	3,557	1,940
Postage and delivery	1,849	1,374	1,123	847	258	30,171	3,908	1,007	345	58	4,036	3,312
Travel	40,798	19,944	53,515	25,966	92,909	101,659	47,308	10,426	15,925	8,698	79,840	88,531
Conferences and meetings	9,984	5,080	27,564	5,357	7,769	11,808	13,284	204	1,335	275	20,213	4,034
Research and development	14	14,545	5,000	687	150	10,848	17,109	-	9,536	-	50,801	92,819
TV/video/radio production	-	8,197	-	-	40,409	165,220	24,090	-	4,982	3,867	107,742	114,491
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
Rent	20,000	28,788	47,660	5,365	99,068	94,725	62,037	260	(552)	2,855	29,005	55,280
Equipment	895	4,110	118,965	634	16,089	59,110	24,760	-	2,665	12,365	24,764	92,474
Education and seminar	1,018	4,141	428	12,328	78,612	41,700	30,942	-	15,459	51	(6,191)	25,880
Auto expense	-	4,727	4,183	921	132,515	37,875	50,314	-	7,952	15,165	117,535	210,789
Dues and subscriptions	605	-	595	35	-	35	-	214	-	18	558	392
Subtotal	950,776	477,628	1,876,845	157,108	1,074,736	1,297,540	622,706	198,228	118,764	36,324	830,856	1,439,807
Overhead Allocation	236,363	112,195	493,338	39,687	378,659	413,110	172,151	15,547	46,905	20,721	283,732	440,364
TOTAL	\$ 1,187,139	\$ 589,823	\$ 2,370,183	\$ 196,795	\$ 1,453,395	\$ 1,710,650	\$ 794,857	\$ 213,775	\$ 165,669	\$ 57,045	\$ 1,114,588	\$ 1,880,171

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Services (Continued)							Supportive Services				
	CGP TV and Radio	Iran	Partners in Humanity	Nepal	Ukraine	Children and Youth	Total Program Services	Fundraising	Management and General Washington	Management and General Brussels	Total Supportive Services	Total
Salaries and benefits	\$ 634,463	\$ 66,257	\$ 167,593	\$ -	\$ -	\$ 72,536	\$ 3,984,692	\$ 282,733	\$ 1,434,882	\$ 496,184	\$ 2,213,799	\$ 6,198,491
Consultants and professional services	404,109	16,000	121,939	291	-	21,861	2,041,800	7,054	465,454	45,232	517,740	2,559,540
Passthroughs and subgrants	443,258	(964)	696	-	-	25,998	888,098	-	-	-	-	888,098
Telephone/internet	68,928	1,041	870	16	-	9,949	366,452	2,460	79,234	1,108	82,802	449,254
Office Expense	194,732	1,981	3,612	-	-	7,143	582,760	1,916	157,711	4,022	163,649	746,409
Miscellaneous	97,906	96	196	58	46,120	4,687	498,004	1,868	86,543	(25,037)	63,374	561,378
Bank charges and other fees	32,568	-	30	-	-	-	43,255	148	156,525	-	156,673	199,928
Printing	9,235	46	8,042	-	-	1,291	137,502	13,008	10,472	-	23,480	160,982
Postage and delivery	17,220	500	287	-	-	477	66,772	7,632	34,906	1,639	44,177	110,949
Travel	137,018	29,343	35,521	1,888	-	122,681	911,970	56,246	209,776	17,802	283,824	1,195,794
Conferences and meetings	848	4,175	4,176	-	-	8,274	124,380	7,034	20,188	-	27,222	151,602
Research and development	109,558	-	-	-	-	-	311,067	36	283	-	319	311,386
TV/video/radio production	82,676	-	-	-	-	-	551,674	-	(575)	-	(575)	551,099
Depreciation and amortization	-	-	-	-	-	-	-	-	53,773	-	53,773	53,773
Rent	75,134	-	-	-	-	-	519,625	-	342,051	-	342,051	861,676
Equipment	183,806	-	2,013	-	-	1,842	544,492	27	15,277	15,719	31,023	575,515
Education and seminar	10,246	994	443	21	-	6,209	222,281	81,409	(1,182)	-	80,227	302,508
Auto expense	49,921	-	-	35	-	94	632,026	-	3,841	-	3,841	635,867
Dues and subscriptions	7,192	-	832	-	-	-	10,476	1,410	3,328	236	4,974	15,450
Subtotal	2,558,818	119,469	346,250	2,309	46,120	283,042	12,437,326	462,981	3,072,487	556,905	4,092,373	16,529,699
Overhead Allocation	549,110	29,712	89,318	560	-	62,375	3,383,847	-	(3,383,847)	-	(3,383,847)	-
TOTAL	\$ 3,107,928	\$ 149,181	\$ 435,568	\$ 2,869	\$ 46,120	\$ 345,417	\$ 15,821,173	\$ 462,981	\$ (311,360)	\$ 556,905	\$ 708,526	\$ 16,529,699

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2005

	Program Services										
	Search USA	Macedonia	Middle East	Morocco	Burundi	Congo	Angola	Indonesia	Ivory Coast	Guinea	Liberia and MRU
Salaries and benefits	\$ 570,424	\$ 340,888	\$ 356,846	\$ 27,610	\$ 893,155	\$ 418,499	\$ 334,255	\$ 111,487	\$ 45,102	\$ 1,372	\$ 395,780
Consultants and professional services	476,534	42,381	455,972	10,003	157,144	21,668	33,275	24,045	1,696	1,160	67,496
Passthroughs and subgrants	92,358	-	246,096	-	-	-	-	-	-	-	-
Telephone\internet	11,983	13,665	29,121	4,323	125,279	35,954	26,724	12,002	992	445	32,200
Office expense	8,660	31,871	39,867	2,855	260,430	145,577	123,444	14,587	16,405	3,174	144,108
Miscellaneous	7,974	637	5,097	36,459	43,083	38,300	2,167	601	4,074	5,973	60,653
Bank charges and other fees	-	3,418	1,475	184	864	10,495	10,338	6,997	185	345	14,110
Printing	1,263	82,743	3,537	-	14,030	11,763	3,334	5,617	25	168	2,746
Postage and delivery	1,784	2,529	6,548	412	5,776	24,830	2,461	3,678	805	63	2,969
Travel	88,747	33,285	156,268	11,633	317,871	91,948	175,777	69,333	16,001	6,975	163,310
Conferences and meetings	60,504	5,300	21,934	43	(7,511)	138	7,973	14,570	165	93	45,128
Research and development	87	6,253	59,902	81	25	(1,724)	9,454	15	-	-	11,638
TV/video/radio production	1,247	10,913	26,710	-	91,131	85,634	9,300	14,025	3,878	118	90,491
Depreciation expense	-	-	-	-	-	-	-	-	-	-	-
Rent	22,900	42,024	63,029	8,807	140,739	72,083	40,800	10,261	8,338	1,745	86,398
Equipment	5,432	25,927	317,305	890	23,791	99,155	11,711	5,114	20,266	6,938	36,379
Education and seminar	5,832	14,893	157	7,062	118,806	5,635	162,204	804	4,195	-	48,898
Auto expense	-	21,640	6,215	1,127	223,323	26,021	-	138	1,195	3,813	170,275
Dues and subscriptions	53	-	660	-	-	(23)	-	3	-	-	1,636
Total Direct Expense	1,355,782	678,367	1,796,739	111,489	2,407,936	1,085,953	953,217	293,277	123,322	32,382	1,374,215
Overhead Allocation	321,978	135,592	381,702	26,444	541,390	266,066	251,694	79,810	31,087	1,759	351,798
TOTAL EXPENSES	\$ 1,677,760	\$ 813,959	\$ 2,178,441	\$ 137,933	\$ 2,949,326	\$ 1,352,019	\$ 1,204,911	\$ 373,087	\$ 154,409	\$ 34,141	\$ 1,726,013

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Services (Continued)					Supportive Services				
	Sierra Leone	CGP TV and Radio	Iran	Partners in Humanity	Total Program Services	Fundraising	Management and General Washington	Management and General Brussels	Total Supportive Services	Total
Salaries and benefits	\$ 257,789	\$ 239,426	\$ 70,696	\$ 141,572	\$ 4,204,901	\$ 200,700	\$ 1,328,085	\$ 657,223	\$ 2,186,008	\$ 6,390,909
Consultants and professional services	38,235	360,888	-	45,050	1,735,547	41,309	317,739	116,477	475,525	2,211,072
Passthroughs and subgrants	649	-	-	-	339,103	-	-	-	-	339,103
Telephone\internet	41,806	11,797	1,050	8,483	355,824	3,253	71,798	20,665	95,716	451,540
Office expense	102,319	224,893	94	964	1,119,248	3,436	61,635	28,857	93,928	1,213,176
Miscellaneous	10,800	247,613	2,850	609	466,890	15,659	3,066	2,644	21,369	488,259
Bank charges and other fees	3,484	915	-	-	52,810	520	69,793	9,715	80,028	132,838
Printing	2,960	-	54	976	129,216	3,731	12,213	-	15,944	145,160
Postage and delivery	5,495	8,522	613	62	66,547	1,678	16,027	3,789	21,494	88,041
Travel	47,635	104,424	25,344	17,615	1,326,166	21,468	136,723	47,021	205,212	1,531,378
Conferences and meetings	11,632	653	670	50	161,342	11,269	42,606	6,527	60,402	221,744
Research and development	55,127	168	-	30	141,056	-	71,050	-	71,050	212,106
TV/video/radio production	22,267	765,245	-	-	1,120,959	12,573	3,224	-	15,797	1,136,756
Depreciation expense	-	-	-	-	-	-	58,028	-	58,028	58,028
Rent	32,596	29	-	-	529,749	810	227,198	34,448	262,456	792,205
Equipment	90,453	230,642	-	2,385	876,388	1,353	12,408	7,335	21,096	897,484
Education and seminar	3,827	185	20	239	372,757	566	5,420	3,725	9,711	382,468
Auto expense	116,939	148	-	-	570,834	1,583	-	-	1,583	572,417
Dues and subscriptions	44	-	75	35	2,483	1,528	5,697	4,035	11,260	13,743
Total Direct Expense	844,057	2,195,548	101,466	218,070	13,571,820	321,436	2,442,710	942,461	3,706,607	17,278,427
Overhead Allocation	248,399	548,707	35,136	53,144	3,274,706	95,627	(3,370,333)	-	(3,274,706)	-
TOTAL EXPENSES	\$ 1,092,456	\$ 2,744,255	\$ 136,602	\$ 271,214	\$ 16,846,526	\$ 417,063	\$ (927,623)	\$ 942,461	\$ 431,901	\$ 17,278,427

SEARCH FOR COMMON GROUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,756,836	\$(4,791,559)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	53,773	58,028
(Increase) decrease in:		
Grants receivable	(4,869,593)	2,928,320
Pledges receivable	(29,842)	2,212
Other receivables	10,800	(23,879)
Other advances	31,788	51,569
Prepaid expenses	(35,490)	76,143
Due from related parties	-	1,316,479
Deposits	1,000	(2,500)
Increase (decrease) in:		
Accounts payable	21,844	145,758
Other accrued expenses	402,433	379,772
Net cash provided (used) by operating activities	<u>(656,451)</u>	<u>140,343</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	8,258
Purchase of furniture and equipment	(25,574)	-
Net cash provided (used) by investing activities	<u>(25,574)</u>	<u>8,258</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	1,000,000	-
Net cash provided by financing activities	<u>1,000,000</u>	<u>-</u>
Net increase in cash	317,975	148,601
Cash at beginning of year	842,802	694,201
CASH AT END OF YEAR	<u>\$ 1,160,777</u>	<u>\$ 842,802</u>

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Search for Common Ground (the Organization) is an independent, nonprofit organization dedicated to finding workable solutions to divisive national and international problems. The Organization's programs aim to channel conflict toward constructive outcomes in order to build a more secure and peaceful world.

Basis of presentation -

The accompanying financial statements have been prepared on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations".

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, the Organization maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at market value. Unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Fixed assets -

Fixed assets purchased with a cost of \$5,000 or more are capitalized and shown on the statement of financial position. Fixed assets are depreciated on the straight-line method over the estimated useful lives of the related assets, generally five to seven years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Organization is not a private foundation.

Net asset classification -

The net assets of the Organization are reported in two self-balancing groups as follows:

- **Unrestricted net assets** represent the portion of expendable funds that are available for the general support of the Organization's operations.
- **Temporarily restricted net assets** represent amounts that are specifically restricted by donors or grantors for various programs or for future periods.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Grants and donations -

The Organization reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated restriction ends or is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. If the donor stipulation is met in the same reporting period in which the contribution is recorded, the Organization reports the contribution as unrestricted.

Use of estimates-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses-

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

Reclassifications -

Certain reclassifications have been made to the prior year financial statements in order to conform to the classifications used for the current year.

2. LEASE COMMITMENT

On November 13, 2002, the Organization entered into a non-cancelable operating lease for general office space. The lease agreement commenced on April 1, 2003 and will terminate on March 31, 2008. In November 2006, the Organization entered into an agreement with the owner of the building to transfer the subleases to the owner of the building. The rent has been reduced to US 24,782 per month. Rent payments are subject to a yearly increase based on the Consumer Price Index or 5%, whichever is greater and all other lease terms and conditions remain the same.

On July 1, 2003, the Organization entered into a two-year lease for office space in Israel to support the Project Director.

At December 31, 2006, the future minimum lease payments are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2007	\$ 297,389
2008	74,347
	<u>\$ 371,736</u>

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

2. LEASE COMMITMENT (Continued)

Rental expense, including short term lease agreements for overseas offices and housing amounted to approximately \$861,676 and \$792,205 for the years ended December 31, 2006 and 2005, respectively.

3. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2006 temporarily restricted net assets consisted of the following:

Time restriction	\$ 69,205
Middle East	699,861
Burundi	252,308
Congo	2,260,650
Iran	46,720
Liberia	1,212,161
Sierra Leone	3,867,049
Morocco	393,403
Macedonia	68,096
Ivory Coast	148,395
Guinea	27,001
CGP Productions	605,458
Angola	778,483
Nepal	53,637
Other Programs	421,150
TOTAL TEMPORARILY RESTRICTED	<u>\$ 10,903,577</u>

At December 31, 2005, temporarily restricted net assets consisted of the following:

Time restriction	\$ 130,450
Middle East	974,696
Burundi	536,577
Dialogue of Civilizations	458,108
Congo	1,433,627
Iran	81,795
Liberia	651,466
Sierra Leone	1,167,167
Morocco	120,546
Macedonia	246,807
Ivory Coast	146,447
Sudan	25,000
Guinea	70,670
CGP Productions	215,319
Other Programs	625,000
TOTAL TEMPORARILY RESTRICTED	<u>\$ 6,883,675</u>

SEARCH FOR COMMON GROUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

3. TEMPORARILY RESTRICTED NET ASSETS (Continued)

At December 31, 2006, the following is the summary of net assets that were released from donor restrictions by incurring expenses which satisfied the donor-imposed restrictions:

Time restriction	\$ 61,245
Search USA	315,900
Angola	677,092
Middle East	1,958,565
Burundi	1,619,148
CGP Productions	3,251,757
Congo	1,495,865
Iran	147,157
Liberia	1,069,963
Morocco	175,745
Macedonia	379,778
Indonesia	76,909
Ivory Coast	181,949
Sierra Leone	1,773,474
Guinea	70,260
Other Programs	<u>732,884</u>
TOTAL RELEASED FROM RESTRICTIONS	<u>\$13,987,691</u>

At December 31, 2005, the following is the summary of net assets that were released from donor restrictions by incurring expenses which satisfied the donor-imposed restrictions:

Time restriction pledges	\$ 120,150
Search USA	768,068
Angola	1,036,956
Middle East	2,035,389
Burundi	2,948,327
CGP Productions	1,975,321
Congo	1,350,561
Iran	116,602
Liberia	1,673,176
Dialogue of Civilizations	262,214
Morocco	12,204
Macedonia	736,620
Indonesia	218,909
Ivory Coast	154,409
Sierra Leone	1,043,257
Guinea	33,793
Other Programs	<u>1,269,990</u>
TOTAL RELEASED FROM RESTRICTIONS	<u>\$15,755,946</u>

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

4. DUE TO RELATED PARTY

Included in other accrued expenses are amounts due to the European Centre for Common Ground, a related entity. As of December 31, 2006 and 2005, the total amounts due are approximately \$800,000 and \$245,000, respectively.

5. CONCENTRATION OF CREDIT RISK

A substantial portion of the Organization's grant receivable is due from various governments. These governments reserve the right to terminate or suspend their grants should they determine that such assistance is not to their best interest.

6. UNRESTRICTED NET ASSETS

During 1998, the Organization established a cash reserve fund. This fund was established as an emergency reserve for future cash needs should grant revenue not be sufficient to cover current and future operating needs. No contributions were made to this fund in 2006 and 2005, respectively. The Organization had a total of \$78,553 and \$325,000 in board designated net assets as of December 31, 2006 and 2005, respectively.

7. NOTE PAYABLE

During 2006, the Organization borrowed \$1,000,000 from a local financial institution. The note will become due on December 20, 2007. Interest accrues at a rate of 8.25% per annum and is paid monthly.

8. CONTINGENCY

The grants Search for Common Ground receives from the United States government are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the federal grants is based upon the allowance of costs reported to and accepted by the U.S. government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2006. Until such audits have been accepted by the U.S. government, there exists a contingency to refund an amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.