



**AUDIT REPORT**

**FINANCIAL AND FEDERAL AWARD  
COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

# SEARCH FOR COMMON GROUND

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**FINANCIAL STATEMENTS**



**FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2015**

# SEARCH FOR COMMON GROUND

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# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of Search for Common Ground (SFCG), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and change in net assets, 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 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 SFCG as of December 31, 2016, and the change 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.

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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

## Report on Summarized Comparative Information

We have previously audited SFCG's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on pages I-(17 - 22), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2017 on our consideration of SFCG'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SFCG's internal control over financial reporting and compliance.



August 22, 2017

**SEARCH FOR COMMON GROUND**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2016**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,044,186	\$ 5,164,655
Grants and contracts receivable	27,395,425	27,752,000
Pledges receivable	-	38,630
Advances and other receivables	331,315	644,008
Prepaid expenses	204,460	236,510
Other current assets	<u>(739)</u>	<u>11,671</u>
Total current assets	<u>32,974,647</u>	<u>33,847,474</u>
<b>FIXED ASSETS</b>		
Furniture and fixtures	224,858	224,858
Office equipment	145,475	145,475
Software and computer equipment	<u>1,255,496</u>	<u>1,255,496</u>
	1,625,829	1,625,829
Less: Accumulated depreciation and amortization	<u>(1,621,943)</u>	<u>(1,617,397)</u>
Net fixed assets	<u>3,886</u>	<u>8,432</u>
<b>OTHER ASSETS</b>		
Deposit	<u>71,795</u>	<u>82,551</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 33,050,328</u></b>	<b><u>\$ 33,938,457</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Notes payable	\$ 40,000	\$ 3,520,000
Recoverable grant	4,800,000	160,527
Accounts payable	593,360	547,352
Other accrued expenses	1,021,202	958,253
Refundable advance	1,285,523	1,076,009
Provision for loss	415,625	385,699
Due to SFCG Affiliate	<u>419,450</u>	<u>1,182,703</u>
Total current liabilities	<u>8,575,160</u>	<u>7,830,543</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	28,000	48,000
Deposits	<u>15,444</u>	<u>-</u>
Total long-term liabilities	<u>43,444</u>	<u>48,000</u>
Total liabilities	<u>8,618,604</u>	<u>7,878,543</u>
<b>NET ASSETS</b>		
Unrestricted deficit	(5,327,759)	(7,238,820)
Temporarily restricted	<u>29,759,483</u>	<u>33,298,734</u>
Total net assets	<u>24,431,724</u>	<u>26,059,914</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 33,050,328</u></b>	<b><u>\$ 33,938,457</u></b>

See accompanying notes to financial statements.

## SEARCH FOR COMMON GROUND

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Grant and contract revenue	\$ -	\$ 20,469,171	\$ 20,469,171	\$ 23,940,661
Contributions	3,019,868	-	3,019,868	2,138,907
Interest	192	-	192	11
Rental income	30,625	-	30,625	-
Other revenue	170,185	-	170,185	246,484
In-kind contributions	72,340	-	72,340	2,000
Net assets released from donor restrictions	<u>21,608,901</u>	<u>(21,608,901)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>24,902,111</u>	<u>(1,139,730)</u>	<u>23,762,381</u>	<u>26,328,063</u>
<b>EXPENSES</b>				
Program Services	18,788,940	-	18,788,940	19,058,767
Management and General	4,981,823	-	4,981,823	4,562,507
Fundraising	1,211,759	-	1,211,759	188,892
Unrestricted	<u>508,528</u>	<u>-</u>	<u>508,528</u>	<u>989,899</u>
Total expenses	<u>25,491,050</u>	<u>-</u>	<u>25,491,050</u>	<u>24,800,065</u>
Change in net assets before other items	(588,939)	(1,139,730)	(1,728,669)	1,527,998
<b>OTHER ITEMS</b>				
Forgiveness of debt	2,500,000	-	2,500,000	-
De-obligation of funds	<u>-</u>	<u>(2,399,521)</u>	<u>(2,399,521)</u>	<u>(80,838)</u>
Change in net assets	1,911,061	(3,539,251)	(1,628,190)	1,447,160
Net assets at beginning of year	<u>(7,238,820)</u>	<u>33,298,734</u>	<u>26,059,914</u>	<u>24,612,754</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ (5,327,759)</u></b>	<b><u>\$ 29,759,483</u></b>	<b><u>\$ 24,431,724</u></b>	<b><u>\$ 26,059,914</u></b>



**SEARCH FOR COMMON GROUND**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016				
	Program Services				
	Africa Programs	Asia Programs	MENA Programs	Global Programs	Total Program Services
Salaries and benefits	\$ 3,971,300	\$ 688,236	\$ 1,513,871	\$ 743,154	\$ 6,916,561
Consultants and professional services	565,722	82,680	271,245	200,238	1,119,885
Passthroughs and subgrants	1,020,595	148,855	544,845	688,158	2,402,453
Equipment	125,306	15,818	3,513	10,629	155,266
Travel	963,497	125,142	305,548	98,986	1,493,173
TV/video/radio production	626,749	66,008	277,361	100,877	1,070,995
Education and seminar	1,284,117	121,256	569,559	950	1,975,882
Professional legal services	-	-	-	-	-
Research and development	583,777	65,217	170,691	121,557	941,242
Vehicle expenses	153,267	5,887	16,429	-	175,583
Rent	451,175	63,497	113,886	3,500	632,058
Office expenses	356,712	67,439	112,723	58,831	595,705
Telephone/internet	249,866	12,347	35,204	3,092	300,509
Printing	58,909	6,606	11,504	2,499	79,518
Postage and delivery	4,338	530	152	-	5,020
Conferences and meetings	335,584	185,562	90,954	68,783	680,883
Dues and subscriptions	-	1,278	4,265	5,020	10,563
Bank charges and other fees	126,215	24,177	20,461	30	170,883
Depreciation and amortization	3,225	-	-	-	3,225
Other expenses	3,903	29,336	10,772	15,525	59,536
Bad debt and provisions	-	-	-	-	-
Subtotal	10,884,257	1,709,871	4,072,983	2,121,829	18,788,940
Overhead allocation	2,289,041	393,088	913,723	214,412	3,810,264
<b>TOTAL</b>	<b>\$ 13,173,298</b>	<b>\$ 2,102,959</b>	<b>\$ 4,986,706</b>	<b>\$ 2,336,241</b>	<b>\$ 22,599,204</b>

						2015
<b>Supporting Services</b>						
<b>Management and General</b>	<b>Fundraising</b>	<b>Unrestricted</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>	<b>Total Expenses</b>	
\$ 2,943,372	\$ 850,465	\$ 96,010	\$ 3,889,847	\$ 10,806,408	\$ 10,404,260	
507,222	72,813	81,607	661,642	1,781,527	1,272,744	
-	-	29,348	29,348	2,431,801	1,583,828	
51,954	135	-	52,089	207,355	271,106	
367,263	25,238	48,964	441,465	1,934,638	1,926,265	
-	-	6,266	6,266	1,077,261	1,222,283	
22,159	1,838	14,662	38,659	2,014,541	1,803,775	
327,910	-	-	327,910	327,910	442,016	
-	-	80,758	80,758	1,022,000	945,877	
-	-	-	-	175,583	262,939	
553,233	-	10,800	564,033	1,196,091	1,166,805	
169,039	4,954	-	173,993	769,698	1,224,938	
58,202	227	528	58,957	359,466	377,726	
9,163	15,567	967	25,697	105,215	89,125	
3,506	4,668	27	8,201	13,221	62,066	
18,552	222,084	23,631	264,267	945,150	943,602	
4,090	9,240	-	13,330	23,893	18,769	
40,105	4,530	115,439	160,074	330,957	438,333	
1,321	-	-	1,321	4,546	5,091	
3,254	-	(479)	2,775	62,311	60,649	
(98,522)	-	-	(98,522)	(98,522)	277,868	
4,981,823	1,211,759	508,528	6,702,110	25,491,050	24,800,065	
(3,810,264)	-	-	(3,810,264)	-	-	
<b>\$ 1,171,559</b>	<b>\$ 1,211,759</b>	<b>\$ 508,528</b>	<b>\$ 2,891,846</b>	<b>\$ 25,491,050</b>	<b>\$ 24,800,065</b>	

## SEARCH FOR COMMON GROUND

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,628,190)	\$ 1,447,160
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	4,546	5,091
Provision for loss	29,926	385,699
Change in allowance for doubtful accounts	(237,893)	11,297
(Increase) decrease in:		
Grants and contracts receivable	356,575	(340,195)
Pledges receivable	38,630	8,233
Advances and other receivables	550,586	(298,133)
Prepaid expenses	32,050	25,821
Other current assets	12,410	(11,671)
Deposit	10,756	(1,847)
Increase (decrease) in:		
Accounts payable	46,008	(317,824)
Other accrued expenses	62,949	141,946
Refundable advance	209,514	316,554
Due to SFCG Affiliate	(763,253)	(84,633)
Deposits	<u>15,444</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>(1,259,942)</u>	<u>1,287,498</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>-</u>	<u>(9,674)</u>
Net cash used by investing activities	<u>-</u>	<u>(9,674)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	68,000
Repayment of notes payable	(1,000,000)	(500,000)
Forgiveness of debt	(2,500,000)	-
Proceeds from recoverable grant	4,800,000	160,527
Repayment of recoverable grant	(160,527)	-
Payments on capital lease	<u>-</u>	<u>(1,713)</u>
Net cash provided (used) by financing activities	<u>1,139,473</u>	<u>(273,186)</u>
Net (decrease) increase in cash and cash equivalents	(120,469)	1,004,638
Cash and cash equivalents at beginning of year	<u>5,164,655</u>	<u>4,160,017</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 5,044,186</u></b>	<b><u>\$ 5,164,655</u></b>

SEARCH FOR COMMON GROUND

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid	\$ <u>24,898</u>	\$ <u>148,352</u>
<b>SCHEDULE OF NONCASH FINANCING TRANSACTIONS</b>		
Conversion of Line of Credit to a Term Loan	\$ <u>-</u>	\$ <u>4,000,000</u>

**SEARCH FOR COMMON GROUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

Search for Common Ground (SFCG) is an independent, non-profit organization dedicated to finding workable solutions to divisive national and international problems. SFCG'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 are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SFCG's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

The accompanying financial statements represent the activity of SFCG only. For the year ended December 31, 2016, the financial statements of Search for Common Ground Belgium have been combined with SFCG in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The consolidated financial statements are available at the SFCG's headquarters.

Cash and cash equivalents -

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

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, SFCG maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

SFCG had \$3,760,284 of cash and cash equivalents held at financial institutions in foreign countries at December 31, 2016. The majority of funds invested in foreign countries are uninsured.

Foreign currency translation -

The United States dollar ("Dollars") is the functional currency for SFCG's operations. Transactions in currencies other than U.S. Dollars are translated into Dollars at the historical rate of exchange during the month of the transaction. All assets and liabilities denominated in non-U.S. currency are translated into Dollars based on the historical rate of exchange.

Receivables -

Receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

## SEARCH FOR COMMON GROUND

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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

##### Fixed assets -

Fixed assets purchased with a cost of \$5,000 or more are capitalized and shown in the Statement of Financial Position. Fixed assets are depreciated/amortized 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. Depreciation and amortization expense for the year ended December 31, 2016 totaled \$4,546.

Search for Common Ground also purchases equipment for its various programs with funding received from the U.S. Government. Under the terms of these agreements, title to equipment remains with Search for Common Ground, but the donor generally retains control of the equipment until disposition at the end of the award period. Therefore, equipment purchased under these programs are expensed when incurred and such assets are not reflected as capital assets in the accompanying Statement of Financial Position.

##### Income taxes -

SFCG 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. SFCG is not a private foundation.

##### Uncertain tax positions -

For the year ended December 31, 2016, SFCG has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

##### Net asset classification -

The net assets of SFCG are reported in three self-balancing groups as follows:

- **Unrestricted net assets** represent the portion of expendable funds that are available for the general support of SFCG's operations.
- **Temporarily restricted net assets** represent amounts that are specifically restricted by donors or grantors for various programs or for future periods.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by SFCG. There were no permanently restricted net assets at December 31, 2016.

##### Grants, contracts and contributions -

SFCG 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 Statement of Activities and Change in Net Assets released from restrictions. If the stipulation is met in the same reporting period in which the contribution is recorded, SFCG reports the contribution as unrestricted.

## SEARCH FOR COMMON GROUND

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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

##### Grants, contracts and contributions (continued) -

SFCG receives funding under grants and contracts from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs.

This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

##### In-kind contributions -

In-kind contributions are recognized as support and expense in the Statement of Activities and Change in Net Assets in accordance with FASB ASC 958-605-15-2, *Revenue Recognition-Contributions Received*, if the contributions (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by SFCG.

##### Use of estimates -

The preparation of the 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.

##### New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Combined Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of SFCG's combined financial statements, it is not expected to alter SFCG's reported financial position.

##### Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

**SEARCH FOR COMMON GROUND**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**2. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2016:

Africa Programs	\$ 20,761,854
Asia Programs	1,858,753
MENA Programs	5,011,921
Global Programs	<u>2,126,955</u>
	<b><u>\$ 29,759,483</u></b>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time), which satisfied the restricted purposes specified by the donors:

Africa Programs	\$ 12,941,135
Asia Programs	2,188,588
MENA Programs	4,850,090
Global Programs	<u>1,629,088</u>
	<b><u>\$ 21,608,901</u></b>

**3. DEBT OBLIGATIONS**

Financial Institutions

In February 2015, the line of credit, with an outstanding balance of \$4,000,000, was converted to a loan. The loan had an original maturity date of July 31, 2015 and incurred interest equal to the Index plus 3.00% per annum. This note represents a renewal and/or amendment to the original line of credit.

A temporary extension was agreed upon in July 2015, which extended the maturity date until October 31, 2015. However, on November 24, 2015, a forbearance agreement was reached extending the maturity date until June 1, 2016 and forgiving \$2,500,000 of the outstanding principal, contingent upon timely principal reduction payments being made and no defaults under the agreed upon terms. In February of 2016, SFCG met all obligations with the repayment of the required remaining principal and terms of the forbearance agreement and therefore the portion of loan was forgiven.

During the year ended December 31, 2016, SFCG incurred interest expense totaling \$24,898.

Other debt obligations

Additionally, in July of 2015 SFCG entered into a borrowing arrangement with SFCG Foundation. The arrangement totaled \$68,000 and is to be repaid in predetermined installments with a term commencing on July 10, 2015 and continuing through July 10, 2018. An amendment extended the initial payment on the loan repayment until July 10, 2017. Interest on the arrangement is 1.5% per annum. Total amount due as of December 31, 2016 was \$68,000.



## SEARCH FOR COMMON GROUND

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

#### 4. RECOVERABLE GRANT

SFCG entered into a recoverable grant agreement with a director during the year ended December 31, 2015. The purpose of the recoverable grant is the discharge of SFCG's indebtedness and the recapitalization of SFCG's existing grants. As of December 31, 2016, SFCG had an outstanding balance on the recoverable grant of \$4,800,000, and is included on the Statement of Financial Position at year-end. Grant repayment is contingent upon future fund-raising. If fund-raising efforts result in a surplus of unrestricted net assets, such surplus will be transferred and applied against any balance, up to the aggregate amount outstanding.

#### 5. LEASE COMMITMENTS

On November 13, 2002, SFCG entered into a five-year, non-cancelable operating lease for general office space. Since the original termination date, SFCG has amended the lease on various occasions with the current amendment to the lease extending lease commitments through May 30, 2018. 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.

Additionally, SFCG entered into an agreement to sub-lease office space with terms commencing on September 2, 2016 and terminating on May 31, 2018. The base rent for the sublease is \$15,444, with an annual escalation effective September 1, 2017, and a six month incentive at the beginning of the lease for reduced required payments.

SFCG leases offices and guest houses in several foreign countries under short-term lease agreements.

The following is a schedule of the future minimum lease payments and income:

<u>Year Ending December 31,</u>	<u>Rental Payments</u>	<u>Rental Income</u>	<u>Net</u>
2017	\$ 527,352	\$ (172,970)	\$ 354,382
2018	<u>224,178</u>	<u>(81,080)</u>	<u>143,098</u>
	<u>\$ 751,530</u>	<u>\$ (254,050)</u>	<u>\$ 497,480</u>

Rental expense, including short-term lease agreements for overseas offices and housing, amounted to \$1,196,091 for the year ended December 31, 2016. Rental income for the year ended December 31, 2016 totaled \$30,625.

#### 6. RETIREMENT PLAN

Effective January 1, 1998, SFCG adopted a 403(b) elective deferral contribution plan. The 403(b) plan provides retirement benefits to participating employees who meet the minimum age and services requirements. Employer plan contributions are made at the discretion of management. Contributions to the plan during the year ended December 31, 2016 totaled \$77,698.

## SEARCH FOR COMMON GROUND

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

#### 7. CONCENTRATION OF RECEIVABLES

A substantial portion of SFCG'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 in their best interest. During the year end December 31, 2016, SFCG had de-obligations from various governments totaling \$2,399,521. This amount is shown as a reduction in temporarily restricted net assets on the Statement of Activities and Change in Net Assets.

#### 8. CONTINGENCY

SFCG receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

In addition, the United States Agency for International Development (USAID) approves indirect cost rates annually. The rates have been finalized for the year ended December 31, 2015. Based on calculations for the year ended 2016, those rates may be much lower than the approved provisional rates used in previous years.

Accordingly, SFCG has a refundable advance totaling \$1,285,523 for the year ended December 31, 2016, for programs that have ended where the indirect rate charged to Federal donors were overbilled based on using a higher rate, as well as other obligations to other non USG donors.. That amount is shown as a reduction in temporarily restricted net assets on the Statement of Activities and Change in Net Assets.

#### 9. RELATED PARTY

Search for Common Ground Belgium has overlapping Board of Directors and common management. Additionally, SFCG provides various administrative services to Search for Common Ground Belgium. As of December 31, 2016, the amount due to Search for Common Ground Belgium totaled \$419,450. Additionally, during the year ended December 31, 2016, SFCG awarded Search for Common Ground Belgium a subgrant totaling \$687,440 in order to cover operating losses for the year ended December 31, 2016.

#### 10. SUBSEQUENT EVENTS

In preparing these financial statements, SFCG has evaluated events and transactions for potential recognition or disclosure through August 22, 2017, the date the financial statements were issued.

## **SUPPLEMENTAL INFORMATION**

## SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Granting Agency	CFDA Number	Program Title	Pass-Through	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Expenditures
United States Department of State	19.021	US-IRAN Cooperation to Combat Narcotics	-	-	\$ -	\$ 1,902
United States Department of State	19.021	Ana La abah	-	-	-	120,532
United States Department of State	19.021	Rainbow of Hope II	-	-	173,678	482,799
United States Department of State	19.021	Rainbow of Hope for Lebanese and Syrian refugee Children Through Lebanon	-	-	-	49,279
United States Department of State	19.021	Women Caravan	-	-	5,774	92,030
United States Department of State	19.021	Connect for Humanity	-	-	5,774	67,621
<b>Subtotal CFDA 19.021</b>					<b>185,226</b>	<b>814,163</b>
United States Department of State	19.040	Media for Change: Promoting Responsible Journalism to Enhance Accountability and Citizen Engagement	-	-	49,547	187,086
United States Department of State	19.040	Women in Local Governance	-	-	56,235	141,554
<b>Subtotal CFDA 19.040</b>					<b>105,782</b>	<b>328,640</b>
United States Department of State	19.121	Preventing Election Violence Through Early Warning and Early Response in Guinea and Liberia	-	-	-	414,995
United States Department of State	19.121	Our Country, Our Future: A Community Empowerment Approach for Non Violence in Burundi	-	-	34,407	396,059
United States Department of State	19.121	Engaging Youth and Community Leaders to Prevent Mass Atrocities in Central African Republic (CAR)	-	-	-	72,981
United States Department of State	19.121	Fostering Relationships, Strengthening Ties (FOREST): Training Leaders and Fostering Dialogue	-	-	-	5,815
United States Department of State	19.121	FOREST: Community Peacebuilding Through Programming and Messaging	-	-	-	3,026
<b>Subtotal CFDA 19.121</b>					<b>34,407</b>	<b>892,876</b>
United States Department of State	19.345	Open for Business: Promoting Equitable Land Rights Protection in Sierra Leone, Liberia and Guinea	-	-	34,684	364,271
United States Department of State	19.345	Voice of Peace: Supporting Conflict Mitigation and Mediation in the Central African Republic	-	-	-	114,767
United States Department of State	19.345	Bolstering Judicial and Social Accountability Processes in the Central African Republic	-	-	276,711	642,697
United States Department of State	19.345	Prevent Recruitment and Recidivism of Violent Extremists	-	-	-	408,458
United States Department of State	19.345	Youth Ambassadors for Tolerance and Religious Diversity	-	-	8,793	58,013
United States Department of State	19.345	Inuka: Community-Led Security Approaches to Violent Extremism in Coastal Kenya.	-	-	-	2,012
United States Department of State	19.345	Promoting Religious Freedom through Government and Civil Society Collaboration in the Kyrgyz Republic	-	-	-	217,178
United States Department of State	19.345	Strengthening the capacity of civil society organizations to serve marginalized groups in Mauritania	American Bar Association	CON7889	2,944	79,976

SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Granting Agency	CFDA Number	Program Title	Pass-Through	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Expenditures
United States Department of State	19.345	Promoting Dialogues	National Endowment for Democracy	2014-1334	\$ -	\$ 1,261
United States Department of State	19.345	Promoting Civic Activism	National Endowment for Democracy	2015-573	-	43,706
United States Department of State	19.345	Promoting Dialogues	National Endowment for Democracy	2015-1349	2,727	116,678
United States Department of State	19.345	Women s Leadership Program	National Endowment for Democracy	2016-121	5,157	28,483
United States Department of State	19.345	Constructing Coalitions to Reduce Human Rights Abuse by Security Forces in Northern Nigeria	-	-	-	410,423
United States Department of State	19.345	To Expand and Strengthen Early Warning and Early Response Processes to Enhance Community and State	-	-	-	377,858
United States Department of State	19.345	Supporting the Participation of Youth and Women in the 2016 Electoral Process	National Endowment for Democracy	2015-1032	-	63,254
United States Department of State	19.345	Strengthening Women Parliamentarians in Pakistan for Effective Government	-	-	-	46,658
United States Department of State	19.345	Strengthening Women Parliamentarians in Pakistan for Effective Government - cost extension of PAK004	-	-	-	9,065
United States Department of State	19.345	Promoting Peace building Among Religious and Community Leaders in Karachi	-	-	-	210,188
United States Department of State	19.345	To Produce a TV Series - The Team	-	-	-	243,514
United States Department of State	19.345	Community Memorialization Project	-	-	16,632	163,167
United States Department of State	19.345	Pamoja! Strengthening Community Resilience to Violent Extremism and Religious Divisions	-	-	-	14,989
United States Department of State	19.345	Promoting Civilian Engagement in Security Sector Reform Process in Tunisia	-	-	-	183,047
<b>Subtotal CFDA 19.345</b>					<b>347,648</b>	<b>3,799,663</b>
United States Department of State	19.500	Strengthening Political Leadership and Reducing Economic Barriers for Women in the MENA Region	-	-	15,705	320,557
United States Department of State	19.500	Creating the Next Generation of Palestinian Political Leaders	-	-	-	584,062
United States Department of State	19.500	Promote Bottom-Up Civic Engagement of Tunisian Youth and Establish Mechanisms for their Constructive	-	-	-	482,466
<b>Subtotal CFDA 19.500</b>					<b>15,705</b>	<b>1,387,085</b>
United States Department of State	19.517	Promote Peaceful Management of Conflicts Among Refugee Returnees and Host Communities in Return Zone	-	-	-	57,044
United States Department of State	19.517	Strengthening the Protection of CAR Refugees Through Conflict Transformation in Equateur and Orienta	-	-	9,299	22,409
<b>Subtotal CFDA 19.517</b>					<b>9,299</b>	<b>79,453</b>

SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Granting Agency	CFDA Number	Program Title	Pass-Through	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Expenditures
United States Department of State	19.600	Bahrain Common Ground Institute	-	-	\$ -	\$ 23,583
<b>Subtotal CFDA 19.600</b>					-	<b>23,583</b>
United States Department of State	19.700	Improve Governance Through Enhanced Accountability	-	-	-	15,410
United States Department of State	19.700	Expanding the Table: Empowering Women to Identify Protection Strategies in Sierra Leone Industrialization	-	-	60,527	154,233
United States Department of State	19.700	Empowering Women as Key Partners in Building Peaceful and Resilient Communities in Sudan	-	-	-	158,075
<b>Subtotal CFDA 19.700</b>					<b>60,527</b>	<b>327,718</b>
United States Department of State	19.701	Social Media for Deradicalization in Kyrgyzstan A Model for Central Asia	-	-	-	45,165
United States Department of State	19.701	Morocco - Specific Alternative Messages of Tolerance and Peace	-	-	-	12,310
United States Department of State	19.701	Tale from the Front Line	Education and Diversity Foundation	S-LMAQM-16-GR-1286	-	4,492
United States Department of State	19.701	Kallewa ManioAA An integrated Approach to CVE in Diffa	-	-	-	14,370
United States Department of State	19.701	Katika Usalama Tunategemeana: A Community-Owned Approach to Promoting Moderate Voices and Preventing	-	-	-	17,735
United States Department of State	19.701	Bottom-Up Approach to Countering Violent Extremism	-	-	-	113,197
<b>Subtotal CFDA 19.701</b>					-	<b>207,269</b>
United States Department of State	19.703	Better Together: Improving ISF-Community Relations in Hbeish	-	-	-	688
United States Department of State	19.703	A Social Reintegration Program in the Sahel and Maghreb Region (Mali, Niger, and Morocco)	-	-	-	389,502
United States Department of State	19.703	Facilitating Access to Justice in South Sudan	-	-	11,240	83,161
<b>Subtotal CFDA 19.703</b>					<b>11,240</b>	<b>473,351</b>
United States Agency for International Development	98.001	Uniting Angolas Youth for Political Dialogue	-	-	40,000	586,512
United States Agency for International Development	98.001	Peace Through Development	International Relief and	AID-624-12-00001	-	1,035,060
United States Agency for International Development	98.001	Search for Common Ground - Central African Republic	Catholic Relief Services	AID-623-A-12-000027	-	571,827
United States Agency for International Development	98.001	Promoting Healthy State-Citizen Relations in Africa	-	-	23,047	483,665
United States Agency for International Development	98.001	Intamenwa - The Indivisibles Mobilizing Burundis Youth for Peaceful Elections	-	-	21,871	106,567
United States Agency for International Development	98.001	Amahoro Iwacu - Peace in My Home	-	-	162,996	412,933
United States Agency for International Development	98.001	ZoKweZo All People are People Program	-	-	6,134	629,703
United States Agency for International Development	98.001	Tuendelee Pamoja II Development Food Assistance Project FY2016	Food for the Hungry	AID-FFP- A-16-00010	-	7,563
United States Agency for International Development	98.001	Radio Programming to Support Participative, Transparent and Credible Elections in Guinea	-	-	-	517
United States Agency for International Development	98.001	Supporting Reconciliation and National Unity in Guinea	-	-	-	659,550
United States Agency for International Development	98.001	Regional Cooperative Health Initiative	-	-	-	627,799

SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Granting Agency	CFDA Number	Program Title	Pass-Through	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Expenditures
United States Agency for International Development	98.001	Singha Durbar and Sthaniya Sarkar	-	-	\$ -	\$ 189,572
United States Agency for International Development	98.001	Election Empowerment for Civil Society Project in Nigeria	National Democratic Institute for International Affairs	AID-620-A-14-00003	-	139,966
United States Agency for International Development	98.001	Gender Based Violence Emergency Response and Projection Initiative: Technical Assistance project - N	American Bar Association	S-LMAQM-13-CA-1168	-	12,438
United States Agency for International Development	98.001	Building Bridges Between Herders and farmers in Plateau, Nasarawa and kaduna States Project	-	-	61,189	474,267
United States Agency for International Development	98.001	International Master Consulting Services Agreement	John Hopkins University	2143360	-	154,105
United States Agency for International Development	98.001	Balance Design, Monitoring, Evaluation, Research, and Learning (BalanceD-MERL)	World Vision	AID-OAA-A-15-00061-004	-	57,361
United States Agency for International Development	98.001	GAP Women & Water Activities / BalanceD-MERL	World Vision	AID-OAA-A-15-00061-004	-	3,369
United States Agency for International Development	98.001	Promoting Peace through Land Dispute Management: A Gender Sensitive and Inclusive Approach for Manao	Landesa International	AID-696-A-13-00002	-	6,080
United States Agency for International Development	98.001	Cost Reimbursement Sub agreement (IFES)	Foundation for Electoral National	S-16-156	-	32,994
United States Agency for International Development	98.001	NDI service contract	Democratic Institute for International	N/A	-	8,098
United States Agency for International Development	98.001	development of P4P	Creative Associates	P4P-16-SFCGOOI	-	16,250
United States Agency for International Development	98.001	Madame President	-	-	-	467,821
United States Agency for International Development	98.001	Stronger Together	-	-	11,706	176,660
<b>Subtotal CFDA 98.001</b>					<b>326,943</b>	<b>6,860,677</b>
United States Agency for International Development	98.007	ETH Non-Emergency Food Aid Program	Food for the Hungry	N/A	-	10,199
United States Agency for International Development	98.007	For work Performed Under Non-Emergency Food Aid Program	Food for the Hungry	AID-FFP-A-11-00007	-	269,465
<b>Subtotal CFDA 98.007</b>					<b>-</b>	<b>279,664</b>
United States Department of State	*	Exposing Malian Refugees in Niger to Mainstream Alternatives to Extremist Messaging and Influence	-	-	-	(388)
United States Institute for Peace	*	Climate of Peace: Promoting Durable Conflict Resolution Mechanisms to Address Climate Change - Relat	-	-	-	2,199
United States Institute for Peace	*	Countering Violent Extremism in Kyrgyzstan	-	-	-	15,238
United States Institute for Peace	*	Addressing Inter-religious Tensions in Jerusalem	-	-	-	76,668
United States Agency for International Development	*	Women Initiative for Leadership and Learning	International Organization for Migration	FATA1083	-	60,255
United States Agency for International Development	*	Youth Action Agenda to Prevent Violent Extremism and Promote Peace	Creative Associates	NRT036	-	167,767
<b>Subtotal</b>					<b>-</b>	<b>321,739</b>
<b>TOTAL EXPENDITURES OF U.S. GOVERNMENTAL GRANTS</b>					<b>\$ 1,096,777</b>	<b>\$ 15,795,881</b>

\* No CFDA number provided

SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Granting Agency		Program Title	Pass-Through	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Expenditures
United States Agency for International Development	Fixed Price	Rumor Management to Mitigate Inter-Communal Conflict	Development Alternatives Inc	BTI288 / AID-OAA-TO-12-00053	\$ -	\$ 116,657
United States Agency for International Development	Fixed Price/ Cost Plus Fixed Fee	Monitoring , Evaluation, Collaboration and Learning Support to USAID Resilience Programming	The Mitchell Group	TMG/SFCG-SAREL-MAY-2014 / AID-625-C-14-00002	-	1,427
United States Agency for International Development	Cost Plus Fixed Fee	SAFE Program	National Center for States Court	SC-12-03 / AID-617-C-12-0005	-	244,706
United States Agency for International Development	Fixed Price	COP Site Development	Management Systems International, Inc. Goldbelt Specialty Services LLC	AID-OAA-TO-14-00047	-	12,748
United States Department of State	Contract	Department of State - Global Engagement Center - Anti -Recruitment 2016 Documentary on Lives of Ordinary Residents in Washington DC and Tehran	-	-	-	34,948
United States Institute for Peace	Contract	PEV in Nigeria-Evaluating Youth Programming	-	IOP-11-282	-	11,579
United States Institute for Peace	Fixed Price	Broadcaster Training and Women and Youth Empowerment Through Radio in Northern Mali	-	USP15PO0455	-	40,366
United States Agency for International Development	Fixed Price	Community based Peace Initiative	AECOM Development Alternatives Inc	MPI014 AID-OAA-TO-15-00017	-	9,545 78,181
United States Agency for International Development	Contract	MERLIN / FCFC Extension of XGS078 Task Order #3	Social Impact	AID-LAB-G-15-00002-SFCG-S-0001	-	38,366
United States Agency for International Development	Contract	MERLIN / Lab Scaling Extension of XGS078 Task Order #4	Social Impact	AID-LAB-C-15-00002-UM-S-0001	-	41
<b>TOTAL EXPENDITURES OF U.S. GOVERNMENTAL CONTRACTS</b>					<b>\$ -</b>	<b>\$ 588,564</b>
<b>TOTAL EXPENDITURES OF U.S. GOVERNMENTAL GRANTS AND CONTRACTS</b>					<b>\$ 1,096,777</b>	<b>\$ 16,384,445</b>



SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of SFCG under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of SFCG, it is not intended to and does not present the financial position, changes in net assets or cash flows of the SFCG.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. SFCG has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3. Reconciliation of Grant and Contract Revenue**

Total grant and contract revenue is made up of the following as of December 31, 2016:

U.S Government Grants and Contracts	\$16,384,445
Non-U.S. Governmental Grants and Contracts	<u>4,084,726</u>
<b>TOTAL GRANT AND CONTRACT REVENUE</b>	<b><u><u>\$20,469,171</u></u></b>

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Section I - Summary of Auditor's Results**

**Financial Statements**

- 1) Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: **Unmodified**
- 2) Internal control over financial reporting:
- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None Reported
- 3) Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

- 4) Internal control over major programs:
- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None Reported
- 5) Type of auditor's report issued on compliance for major programs: **Unmodified**
- 6) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

7) Identification of major programs:

<u>Federal Program Title</u>	<u>CFDA Number</u>
Investing in People in The Middle East and North Africa	19.021
Conflict and Stabilization Operations	19.121
International Programs to Support Democracy, Human	19.345
Middle East Partnership Initiative (MEPI)	19.500
USAID Foreign Assistance for Programs Overseas	98.001

- 8) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- 9) Auditee qualified as a low-risk auditee?  Yes  No

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Section II – Financial Statement Findings

Finding 2016-001: Financial Statement Close Process

**Information on the Federal Programs:** All Major Programs

**Criteria or Specific Requirement:** 2 CFR Subpart D, §200.302 "Financial Management" indicates that the recipient's financial management system should provide for "effective control over and accountability for all funds, property and other assets." In addition, SFCG's policies and procedures require that all financial activities be properly reconciled and recorded in a timely manner.

**Condition:** SFCG has significantly improved the accuracy of the balance sheet balances by creating and maintaining schedules and tracking mechanisms for headquarter and field office accounts as well as by implementing various procedures in order to ensure that accounts are appropriately maintained and reported on a monthly basis and that balances at all times reflect the current asset or liability. Although tremendous strides were taken to correct prior deficiencies, there were still numerous entries needed at year end, both recommended by SFCG and audit proposed, which were required to clean up remaining balances.

**Context and Effect:** Without the proper reconciliation of all accounts and transactions on a monthly basis in a timely manner, as well as the proper review and approval of such reconciliations and transactions, there exists the potential for errors and the misappropriation of funds.

**Cause:** SFCG did not adhere to policies and procedures requiring that all financial activities be properly reconciled and recorded in a timely manner.

**Questioned Costs:** None noted.

**Recommendation:** We recommend SFCG ensure that appropriate attention is given to the maintenance of all assets and liability accounts, both at headquarters and field offices, and that accounts be reconciled monthly and that all finance personnel and country directors be held accountable for their accounting records in the perspective field offices.

**Identification as a Repeat Finding, if Applicable:** Prior Year Finding 2015-001

**Views of Responsible Officials and Planned Corrective Actions:** SFCG welcomes the auditor judgment of moving this observation from material weakness to significant weakness. SFCG instituted a comprehensive month-end process beginning in January 2016, which resulted in the reconciliation of all balance-sheet accounts monthly and fiscal-year close as of December 31, 2016. The system was opened only for final audit adjustment. The auditors also examined the first quarter of 2017 and witnessed the implementation of comprehensive month-end processes. We are confident that this observation will not be valid at our next annual audit review.

**Responsibility to Correct this Deficiency:** Controller.

**Date of Completion:** December 31, 2017

Finding 2016-002: Misappropriation of Funds

**Information on the Federal Programs:** None

**Criteria or Specific Requirement:** 2 CFR Subpart D, §200.302 "Financial Management" indicates that the non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Section II – Financial Statement Findings (Continued)**

**Finding 2016-002: Misappropriation of Funds (continued)**

**Condition:** During 2016, fraud was discovered in the Tanzania field office.

**Context and Effect:** Upon initial suspicion, SFCG appropriately conducted an internal review and compliance audit of the project in order to confirm and identify any potential losses. Additionally, SFCG notified the nonfederal entity of the circumstances and details known at the time. Although the size of SFCG's Finance Department in certain countries limit the extent to which certain accounting duties may be segregated, we believe steps could have been taken to separate as many incompatible duties as possible. The basic premise is that no one employee, when possible, should have access to both physical assets and the related accounting records or involved in all phases of a transaction.

**Cause:** SFCG did not adequately safeguard its assets. SFCG must continue to ensure that the system of internal controls is functioning as designed.

**Questioned Costs:** Undetermined

**Recommendation:** SFCG must continue to ensure that the system of internal controls is functioning as designed. In addition, SFCG should continue its focus on training for all finance staff. The training should include both a review of internal control procedures and monitoring of conflicts of interest.

**Identification as a Repeat Finding, if Applicable:** Prior Year Finding 2015-002

**Views of Responsible Officials and Planned Corrective Actions:** We continue with aggressive fraud prevention and detection processes: hiring strong field staff, training, monthly reconciliations and internal audits.

**Responsibility to Correct this Deficiency:** Controller and Director Internal Control

**Date of Completion:** December 31, 2017

*Please also refer to Finding 2016-004 in Section III*

**Section III – Federal Award Findings and Questioned Costs (2 CFR 200.516(a))**

**Finding 2016-003: Sub-recipient Monitoring**

**Information on the Federal Programs** All Major Programs

**Criteria or Specific Requirement:** 2 CFR Subpart D, §200.331 "Requirements for pass-through entities" requires non-Federal entities to evaluate each subrecipient's risk of non-compliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. The non-Federal entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include: (1) Reviewing financial and performance reports required by the pass-through entity (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies.

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Section III – Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)**

**Finding 2016-003: Sub-recipient Monitoring (continued)**

**Criteria or Specific Requirement: (continued):** pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.

**Condition:** Although the majority of subrecipients were approved by the agencies prior to contract, SFCG did not always conduct and document formal pre-award risk assessment procedures, including review of terrorists watch lists prior to requesting the subrecipient be approved, nor document the rationale for selection. In order to further strengthen monitoring procedures, SFCG should also request and obtain independent audit reports and management letters for all subrecipients, including a single audit report when required and a management letter in the cases when applicable. These documents should be reviewed by appropriate personnel in order to determine if any possible control or compliance issues may exist.

**Context and Effect:** Unless monitoring activities are performed, there is no assurance that the subrecipients spend Federal funds in accordance with the provisions of the grant agreements.

**Cause:** Lack of proper and consistent monitoring of sub-recipients.

**Questioned Costs:** None noted.

**Recommendation:** We recommend compliance with monitoring policies and procedures continue to improve. Continued focus on training and the involvement of the regional finance managers will improve compliance. Additionally, SFCG should establish a monitoring system, which tracks all current sub-recipients' information and activity. This information should be easily compiled and continuously updated throughout the year. Lastly, we recommend a detailed memo be prepared in each instance indicating the reason for selecting the particular partner; and the other entities considered. Selection criteria should be developed and documented for each selection.

**Identification as a Repeat Finding, if Applicable:** Prior Year Finding 2015-004

**Views of Responsible Officials and Planned Corrective Actions:** SFCG management agrees with the auditors' recommendations that we still need improvement in our sub-recipient monitoring. We are rolling out a revised sub-recipient policy in 2017. The policy revision results from feedback received from auditors, donors' auditor and staff on the ground. We hope that auditors will see the result in our next annual audit. Also, as of July 2017, SFCG will file the FFATA return for all sub-recipient above the recommended threshold.

**Responsibility to Correct this Deficiency:** Controller and Vice president /Programs

**Date of Completion:** December 31, 2017

**Finding 2016-004: Field Office Expenses**

**Information on the Federal Programs:** CFDA #98.001

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Section III – Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)**

**Finding 2016-004: Field Office Expenses (Continued)**

**Criteria or Specific Requirement:** 2 CFR Subpart D, §200.302 “Financial Management” requires that the financial management system of each non-Federal entity must maintain records that identify adequately the source and application of funds for Federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

**Condition:** While we noted substantial improvement in 2016, our field expense testwork disclosed instances where backup documentation supporting certain expenditures (such as invoices and contracts) was not available for inspection. We also noted instances where supporting documentation did not evidence review and approval.

**Context and Effect:** Payments for services or goods, which are not properly supported by an invoice or other corroborating evidence, may be determined to be unallowable and possibly returned to the Federal government.

**Cause:** SFCG did not adhere to its own policies and procedures in regards to the filing and retention of corroborating documentation justifying the Federal expenditure.

**Questioned Costs:** None noted

**Recommendation:** We recommend continued emphasis on the proper preparation and review of monthly financial reporting to ensure improvements are continued.

**Identification as a Repeat Finding, if Applicable:** Prior Year Finding 2015-006

**Views of Responsible Officials and Planned Corrective Actions:** The improvement in month-end process resulted in the better supporting documents for all expenditures. There were instances where supporting documents were not attached to the payment vouchers due to problems in our scanning system.

**Responsibility to Correct this Deficiency:** Controller and Country Directors

**Date of Completion:** December 31, 2017

**Finding 2016-005: Compliance with U.S. Government Terrorism Requirements**

**Information on the Federal Programs:** All Major Programs

**Criteria or Specific Requirement:** In accordance with 2 CFR §180 Subpart E, recipients of U.S. Government funds must adhere to specific requirements on screening all potential vendors, employees, suppliers and sub-recipients to ensure the organization is not conducting business with excluded parties (as defined by the U.S. Government); further, such screening should be documented in writing.

**Condition:** Our audit revealed instances in which various field offices were not following the current policies and procedures requiring the screening of potential consultants and vendors. We also noted instances in which the screening process was documented after the vendor was paid and the services were completed.

SEARCH FOR COMMON GROUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Section III – Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)**

**Finding 2016-005: Compliance with U.S. Government Terrorism Requirements (continued)**

**Context and Effect:** The failure to screen such parties increases the possibility that U.S. Government funds may inadvertently be provided to individuals or organizations deemed to be excluded parties by the United States Government. If these internal controls are not implemented and performed, potential funding from the U.S. Government could be significantly reduced due to non-compliance with donor terms.

**Cause:** SFCG failed to follow internal policies and procedures in regards to the screening of potential consultants and vendors.

**Questioned Costs:** None noted

**Recommendation:** We recommend SFCG communicate to all field office personnel the importance of compliance with policies and procedures of SFCG as well as requirements set forth by the US Government.

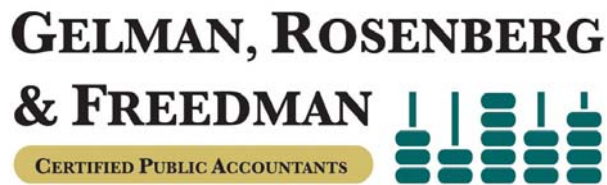
**Identification as a Repeat Finding, if Applicable:** Prior Year Finding 2015-008

**Views of Responsible Officials and Planned Corrective Actions:** As per SFCG policy, verification of the presence of the watch-list report is part of the voucher review stamp required to be used before disbursements are made. This is noted in the procurement policy and procurement checklist. For any vendors paid from headquarters, evidence of watch-list is required before a new vendor is created in the accounts payable system. Monitoring compliance of anti-terrorism compliance policy is part of the Regional Controller's review of expense documentation, beginning in September 2016. It is a stated requirement in pre-award set-up for sub-recipients and each new employee at headquarters is being checked before an offer letter is provided. We have determined that non-compliance is concentrated in four field offices, and we are provided heightened attention and guidance to these offices.

**Responsibility to Correct this Deficiency:** Chief Financial Officer

**Date of Completion:** December 31, 2017

*Please also refer to Finding 2016-001 in Section II*



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

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

We have audited, in accordance with the 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, the financial statements of Search for Common Ground (SFCG) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise SFCG's basic financial statements, and have issued our report thereon dated August 22, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SFCG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFCG's internal control. Accordingly, we do not express an opinion on the effectiveness of SFCG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SFCG's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, 2016-002, and 2016-004 that we consider to be significant deficiencies.

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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**



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SFCG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, 2016-002, and 2016-006.

## **SFCG's Responses to Findings**

SFCG's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. SFCG's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

August 22, 2017

# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

#### Independent Auditor's Report

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

#### Report on Compliance for Each Major Federal Program

We have audited the 's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Search for Common Ground's (SFCG) major Federal programs for the year ended December 31, 2016. SFCG's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SFCG's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SFCG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SFCG's compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, the SFCG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, 2016-003, 2016-004, and 2016-005. Our opinion on each major federal program is not modified with respect to these matters.

SFCG's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. SFCG's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control Over Compliance**

Management of SFCG's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SFCG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SFCG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, 2016-003, 2016-004, and 2016-005, that we consider to be significant deficiencies.

SFCG's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. SFCG's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

*Gelman Rosenberg & Freedman*

August 22, 2017