

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

SEARCH FOR COMMON GROUND

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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, 2017, 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 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 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, 2017, 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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Report on Summarized Comparative Information

We have previously audited SFCG's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 Non-U.S. Governmental Grants on page 16 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 September 6, 2018 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.



September 6, 2018

SEARCH FOR COMMON GROUND
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,321,797	\$ 5,044,186
Grants and contracts receivable	27,336,212	27,395,425
Advances and other receivables	403,957	331,315
Prepaid expenses and other current assets	<u>350,120</u>	<u>203,721</u>
Total current assets	<u>38,412,086</u>	<u>32,974,647</u>
FIXED ASSETS		
Furniture and fixtures	224,858	224,858
Office equipment	145,475	145,475
Software and computer equipment	<u>1,267,496</u>	<u>1,255,496</u>
	1,637,829	1,625,829
Less: Accumulated depreciation and amortization	<u>(1,629,829)</u>	<u>(1,621,943)</u>
Net fixed assets	<u>8,000</u>	<u>3,886</u>
OTHER ASSETS		
Deposit	<u>73,054</u>	<u>71,795</u>
TOTAL ASSETS	<u>\$ 38,493,140</u>	<u>\$ 33,050,328</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Notes payable	\$ -	\$ 40,000
Recoverable grant	4,800,000	4,800,000
Promissory note	812,000	-
Accounts payable	1,109,492	593,360
Other accrued expenses	1,564,910	1,021,202
Refundable advance	168,595	1,285,523
Provision for loss	573,344	415,625
Due to SFCG Affiliate	<u>358,838</u>	<u>419,450</u>
Total current liabilities	<u>9,387,179</u>	<u>8,575,160</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	28,000
Deposits	<u>15,444</u>	<u>15,444</u>
Total long-term liabilities	<u>15,444</u>	<u>43,444</u>
Total liabilities	<u>9,402,623</u>	<u>8,618,604</u>
NET ASSETS		
Unrestricted (deficit)	400,229	(5,327,759)
Board designated	2,750,000	-
Temporarily restricted	<u>25,940,288</u>	<u>29,759,483</u>
Total net assets	<u>29,090,517</u>	<u>24,431,724</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 38,493,140</u>	<u>\$ 33,050,328</u>

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grant and contract revenue	\$ -	\$ 20,535,978	\$ 20,535,978	\$ 20,469,171
Contributions	9,413,887	-	9,413,887	3,019,868
Other revenue	1,236,003	-	1,236,003	170,185
Interest	419	-	419	192
Rental income	172,970	-	172,970	30,625
In-kind contributions	-	-	-	72,340
Net assets released from donor restrictions	<u>21,266,139</u>	<u>(21,266,139)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>32,089,418</u>	<u>(730,161)</u>	<u>31,359,257</u>	<u>23,762,381</u>
EXPENSES				
Program Services	18,267,550	-	18,267,550	18,621,138
Management and General	4,752,311	-	4,752,311	4,981,823
Fundraising	860,898	-	860,898	1,233,989
Unrestricted	<u>361,696</u>	<u>-</u>	<u>361,696</u>	<u>508,528</u>
Total expenses	<u>24,242,455</u>	<u>-</u>	<u>24,242,455</u>	<u>25,345,478</u>
Change in net assets before other items	7,846,963	(730,161)	7,116,802	(1,583,097)
OTHER ITEMS				
Forgiveness of debt	68,000	-	68,000	2,500,000
De-obligation of funds	-	(3,089,034)	(3,089,034)	(2,399,521)
Exchange gain (loss)	<u>563,025</u>	<u>-</u>	<u>563,025</u>	<u>(145,572)</u>
Change in net assets	8,477,988	(3,819,195)	4,658,793	(1,628,190)
Net assets at beginning of year	<u>(5,327,759)</u>	<u>29,759,483</u>	<u>24,431,724</u>	<u>26,059,914</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,150,229</u>	<u>\$ 25,940,288</u>	<u>\$ 29,090,517</u>	<u>\$ 24,431,724</u>

SEARCH FOR COMMON GROUND

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				
	Program Services				
	Africa Programs	Asia Programs	MENA Programs	Global Programs	Total Program Services
Salaries and benefits	\$ 4,750,129	\$ 542,462	\$ 1,163,893	\$ 1,076,011	\$ 7,532,495
Consultants and professional services	478,063	159,685	211,966	177,462	1,027,176
Passthroughs and subgrants	2,128,450	111,097	182,920	892,728	3,315,195
Equipment	286,368	13,437	10,476	32,128	342,409
Travel	916,610	147,905	238,138	26,995	1,329,648
TV, video and radio production	429,089	35,350	7,826	-	472,265
Education and seminar	984,768	50,433	67,102	16,078	1,118,381
Professional legal services	83,644	485	8,119	-	92,248
Research and development	488,764	82,920	82,112	2,732	656,528
Vehicle expenses	234,144	12,341	19,597	11,792	277,874
Rent	427,182	55,896	68,597	1,004	552,679
Office expenses	298,045	20,414	125,074	6,813	450,346
Telephone and internet	216,622	8,457	21,382	9,326	255,787
Printing	9,488	2,540	3,655	1,140	16,823
Postage and delivery	2,933	196	227	-	3,356
Conferences and meetings	382,042	144,594	40,593	64,901	632,130
Dues and subscriptions	2,538	241	938	-	3,717
Bank charges and other fees	106,038	11,540	3,330	-	120,908
Depreciation and amortization	7,225	-	-	-	7,225
Other expenses	27,461	31,223	1,676	-	60,360
Bad debt and provisions	-	-	-	-	-
Subtotal	12,259,603	1,431,216	2,257,621	2,319,110	18,267,550
Overhead allocation	2,631,515	326,009	456,277	287,267	3,701,068
TOTAL	\$ 14,891,118	\$ 1,757,225	\$ 2,713,898	\$ 2,606,377	\$ 21,968,618

Supporting Services						2016
Management and General	Fundraising	Unrestricted	Total Supporting Services	Total Expenses	Total Expenses	
\$ 2,520,153	\$ 505,676	\$ 174,670	\$ 3,200,499	\$ 10,732,994	\$ 10,806,408	
609,753	51,112	12,941	673,806	1,700,982	1,781,527	
-	-	-	-	3,315,195	2,431,801	
113,049	1,699	483	115,231	457,640	207,355	
409,949	42,786	37,769	490,504	1,820,152	1,934,638	
-	-	-	-	472,265	1,077,261	
1,676	-	-	1,676	1,120,057	2,014,541	
219,085	-	11,461	230,546	322,794	327,910	
22,780	-	-	22,780	679,308	1,022,000	
-	-	-	-	277,874	175,583	
617,007	-	-	617,007	1,169,686	1,196,091	
30,179	1,676	656	32,511	482,857	769,698	
43,584	102	-	43,686	299,473	359,466	
11,949	11,001	-	22,950	39,773	105,215	
5,321	5,762	-	11,083	14,439	13,221	
54,916	208,977	968	264,861	896,991	945,150	
9,640	19,177	-	28,817	32,534	23,893	
50,947	12,930	1,147	65,024	185,932	185,385	
661	-	-	661	7,886	4,546	
31,662	-	121,601	153,263	213,623	62,311	
-	-	-	-	-	(98,522)	
4,752,311	860,898	361,696	5,974,905	24,242,455	25,345,478	
(3,701,068)	-	-	(3,701,068)	-	-	
\$ 1,051,243	\$ 860,898	\$ 361,696	\$ 2,273,837	\$ 24,242,455	\$ 25,345,478	

SEARCH FOR COMMON GROUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,658,793	\$ (1,628,190)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	7,886	4,546
Provision for loss	157,719	29,926
Change in allowance for doubtful accounts	-	(237,893)
(Increase) decrease in:		
Grants and contracts receivable	59,213	356,575
Pledges receivable	-	38,630
Advances and other receivables	(72,642)	550,586
Prepaid expenses and other current assets	(146,399)	32,050
Deposit	-	12,410
Increase (decrease) in:		
Accounts payable	516,132	46,008
Other accrued expenses	543,708	62,949
Refundable advance	(1,116,928)	209,514
Due to SFCG Affiliate	(60,612)	(763,253)
Deposits	-	15,444
Net cash provided (used) by operating activities	<u>4,545,611</u>	<u>(1,259,942)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(12,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(12,000)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	-	(1,000,000)
Forgiveness of debt	(68,000)	(2,500,000)
Proceeds from promissory note	812,000	-
Proceeds from recoverable grant	-	4,800,000
Repayment of recoverable grant	<u>-</u>	<u>(160,527)</u>
Net cash provided by financing activities	<u>744,000</u>	<u>1,139,473</u>
Net increase (decrease) in cash and cash equivalents	5,277,611	(120,469)
Cash and cash equivalents at beginning of year	<u>5,044,186</u>	<u>5,164,655</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,321,797</u>	<u>\$ 5,044,186</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 12,000</u>	<u>\$ 24,898</u>

See accompanying notes to financial statements.

SEARCH FOR COMMON GROUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2016, from which the summarized information was derived.

The accompanying financial statements represent the activity of SFCG only. For the year ended December 31, 2017, 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 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 \$2,925,879 of cash and cash equivalents held at financial institutions in foreign countries at December 31, 2017. 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.

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.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

Fixed assets (continued) -

The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2017 totaled \$7,886.

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, 2017, 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, 2017.

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.

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.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

Grants, contracts and contributions (continued) -

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 pronouncements (not yet adopted) -

In August 2016, the FASB issued 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 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 financial statements, it is not expected to alter SFCG's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

New accounting pronouncements (not yet adopted) (continued) -

Early adoption is permitted. SFCG has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

SFCG plans to adopt the new ASUs at the respective required implementation dates.

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.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017:

Africa Programs	\$ 15,950,491
Asia Programs	3,949,952
MENA Programs	3,799,700
Global Programs	<u>2,240,145</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 25,940,288</u>

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	\$ 14,881,213
Asia Programs	1,768,222
MENA Programs	2,785,454
Global Programs	<u>1,831,250</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 21,266,139</u>

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.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

3. DEBT OBLIGATIONS (Continued)

Financial institutions (continued) -

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.

Foundation note payable -

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. On December 8, 2017, the Board of Directors of SFCG Foundation forgave and released SFCG from repayment of all loans made by the Foundation.

Promissory note -

In March of 2017, SFCG entered into an \$800,000 promissory note with an initial maturity date of September 30, 2018. The outstanding principal amount of the loan will bear interest at a fixed rate per year equal to two percent from the date the loan was made until the loan is paid in full. As of December 31, 2017, SFCG had an outstanding balance on the note totaling \$800,000 and incurred interest expense of \$12,000 for the year ended December 31, 2017.

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, 2017, 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.

In February 2018, subsequent to year-end, SFCG was released from any expectation or implied obligation of re-contributing these funds back to the original lender or any other associated party.

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, at which time SFCG will continue on a month to month basis through October 31, 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.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

5. LEASE COMMITMENTS (Continued)

Subsequent to year-end, SFCG signed a three year lease agreement for new office space which commences on November 1, 2018, with an initial termination date of October 31, 2021. Base rent for the new space is \$32,200 per month over the life of the lease.

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</u> <u>Payments</u>	<u>Rental</u> <u>Income</u>	<u>Net</u>
2018	\$ 512,756	\$ (81,080)	\$ 431,676
2019	386,400	-	386,400
2020	386,400	-	386,400
2021	<u>322,000</u>	<u>-</u>	<u>322,000</u>
	<u>\$ 1,607,556</u>	<u>\$ (81,080)</u>	<u>\$ 1,526,476</u>

Rental expense, including short-term lease agreements for overseas offices and housing, amounted to \$1,169,686 for the year ended December 31, 2017. Rental income for the year ended December 31, 2017 totaled \$172,970.

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, 2017 totaled \$90,920.

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, 2017, SFCG had de-obligations from various governments totaling \$3,089,034. 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*.

SEARCH FOR COMMON GROUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

8. CONTINGENCY (Continued)

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 2017.

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, 2016. Based on calculations for the year ended 2017, those rates may be much lower than the approved provisional rates used in previous years.

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, 2017, the amount due to Search for Common Ground Belgium totaled \$358,838. Additionally, during the year ended December 31, 2017, SFCG awarded Search for Common Ground Belgium a subgrant totaling \$887,025 in order to cover operating losses for the year ended December 31, 2017.

10. SUBSEQUENT EVENTS

In preparing these financial statements, SFCG has evaluated events and transactions for potential recognition or disclosure through September 6, 2018, the date the financial statements were issued.

In February 2018, SFCG signed an additional promissory note in the amount of \$3,000,000 as a letter of credit option with an initial maturity date of February 9, 2023. Total amount drawn from the note as of June 30, 2018 was \$1,651,426, of which \$1,125,305 had been repaid subsequent to year-end. Total outstanding balance on the note as of June 30, 2018 was \$526,121.

SUPPLEMENTAL INFORMATION

SEARCH FOR COMMON GROUND

SCHEDULE OF EXPENDITURES OF NON-U.S. GOVERNMENTAL GRANTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Granting Agency	Award or Contract Number	Program Title	Total Expenditures 2017
Alliance for Peacebuilding	SFCG MOU PEC	Peacebuilding Evaluation Consortium - Phase II	\$ 62,638
ATOS	N/A	ATOS CONTRACT 2017-2018	35,489
Bahrain Foundation for Reconciliation and Civil Discourse	N/A	Common Ground Youth Leadership and Conflict Sensitive Media Training in Bahrain	24
Barrick Gold	N/A	ACACIA Contract	833,052
Barrick Gold	N/A	Social Risk Assessment	(2,197)
Bezos Family Foundation	N/A	Battle for Humanity	192,900
Bezos Family Foundation	N/A	Naija Youth Unite	23,417
Carnegie Corporation of New York	bd 12016.R01	Peacebuilding Evaluation Consortium	12,170
Carnegie Corporation of New York	G-1612-53394	African Peace Building Practitioners in Research and Dissemination Aimed at Policy Makers	187,050
Ambatovy		Ambatovy - Phase II Mazava Project	189,405
Canadian Foreign Affairs	CTCBP 2016-0103	Conflict Transformation and Prevention in Moroccan Children Detention Centers	92,608
Canadian Foreign Affairs	CTCBP 2016 -0053	Kallewa Manio-Building Local Capacity for an integrated Approach to Counter Violent Extremism	22,718
Fonds Social de la Republique Democratique du Congo	h917-ZR	Prevention Et Gestion des Conflicts Au Nord Katanga	767,785
Wellspring Philanthropic Fund	12879	Scale-Up Project Support	31,270
Innovations for Poverty Action	81775	IPA-Research Project	68,943
Oak Foundation	OCA Y-16-237	Building Organizational Capacity for a Just and Peaceful World	134,230
USIP = US Institute of Peace		MEN003 Cost Share Grant from USIP	5,940
Alliance for Peacebuilding	SFCG MOU PEC	Peace Building Evaluation Consortium	30,729
Compton Foundation		Converting Evidence of Impact into Policy Relevance: Inception Phase	28,969
Open Society Initiative	855B-4191C703D0FE	Special Discretionary Fund	92,771
PeaceNexus Fund	PBSO.3.SFCG.0110		
	2015	UN PBSO - Support to Development of ME Training Tool	(83)
Rational Games	N/A	Search for Common Ground On-Line Board Game in Lebanon - Pilot Program	11,318
Skoll Foundation	2850018	General Support of Search for Common Ground	(2,056)
Skoll Foundation	15-02947	Skoll Global Threats Fund	403
United Nations	N/A	Projet d Appui a la Securite Communautaire et la Cohesion Sociale Aupres des Jeunes Touches par les	(7,001)
United Nations International Children's Fund	N/A	Dappui a la Responsabilite Sociale des Jeunes pour la Consolidation de al Paix en Republic de Guinee	(628)
Various Donors	N/A		2,659,517
Other Department Expenses	N/A		2,596,044
TOTAL			\$ 8,067,425