

McGladrey & Pullen

Certified Public Accountants

The Synergos Institute, Inc. and Consolidated Entities

Consolidated Financial Report

December 31, 2008

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The Synergos Institute, Inc.
New York, New York

We have audited the accompanying consolidated statement of financial position of The Synergos Institute, Inc. and Consolidated Entities (collectively, the "Organization") as of December 31, 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized information has been derived from the Organization's 2007 consolidated financial statements and, in our report dated June 11, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Synergos Institute, Inc. and Consolidated Entities as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

New York, New York
June 29, 2009

The Synergos Institute, Inc. and Consolidated Entities

**Consolidated Statements of Financial Position
December 31, 2008 and 2007**

	2008	2007
ASSETS		
Cash	\$ 3,902,001	\$ 487,648
Short-term Investments, at fair value	1,737,094	3,778,549
Pledges and Other Receivables, net	6,279,714	8,229,881
Investments, at fair value	8,366,211	14,405,493
Prepaid Expenses and Other Assets	106,687	196,892
Property and Equipment, net	<u>1,927,154</u>	<u>2,222,931</u>
Total assets	<u>\$ 22,318,861</u>	<u>\$ 29,321,394</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 723,526	\$ 565,183
Capital lease obligation	41,680	102,117
Deferred rent and lease incentive	<u>1,382,975</u>	<u>1,408,145</u>
Total liabilities	<u>2,148,181</u>	<u>2,075,445</u>
Commitments and Contingency		
Net Assets:		
Unrestricted:		
Invested in property and equipment	1,885,474	2,120,814
Designated for long-term investment	8,348,844	10,671,345
Undesignated	<u>1,894,376</u>	<u>2,407,384</u>
Total unrestricted net assets	12,128,694	15,199,543
Temporarily restricted net assets	<u>8,041,986</u>	<u>12,046,406</u>
Total net assets	<u>20,170,680</u>	<u>27,245,949</u>
Total liabilities and net assets	<u>\$ 22,318,861</u>	<u>\$ 29,321,394</u>

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entities

Consolidated Statements of Activities

Years Ended December 31, 2008 and 2007

(with summarized financial information for the year ended December 31, 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Summarized Information Total
Support and revenue:				
Contributions:				
Foundations	\$ 1,053,369	\$ 389,145	\$ 1,442,514	\$ 2,235,671
Individuals	548,508	250,471	798,979	2,082,781
GPC membership dues	1,602,273	-	1,602,273	1,724,874
Gates Foundation grant	-	110,572	110,572	6,910,382
Government grant	163,320	-	163,320	16,289
Special event, net	666,122	-	666,122	839,745
Return on investments available for operating activities	105,521	53,948	159,469	291,739
Other income	556,341	-	556,341	594,094
Net assets released from restrictions - satisfaction of program and time restrictions	4,808,556	(4,808,556)	-	-
Total support and revenue	9,504,010	(4,004,420)	5,499,590	14,695,575
Expenses:				
Program services:				
Networks	3,339,095	-	3,339,095	3,329,131
Partnerships	732,757	-	732,757	2,087,404
Gates-Namibia	1,994,329	-	1,994,329	1,351,886
Special Projects	982,153	-	982,153	-
Communications and Outreach	405,422	-	405,422	257,429
Total program services	7,453,756	-	7,453,756	7,025,850
Supporting services:				
Management and general	1,787,108	-	1,787,108	1,817,315
Fund-raising	905,040	-	905,040	611,304
Total supporting services	2,692,148	-	2,692,148	2,428,619
Total expenses	10,145,904	-	10,145,904	9,454,469
Results of operations	(641,894)	(4,004,420)	(4,646,314)	5,241,106
Return on investments on board-designated funds for long-term investments	(2,310,603)	-	(2,310,603)	359,741
Foreign currency transactions loss	(118,352)	-	(118,352)	(10,820)
Loss on disposal of equipment	-	-	-	(1,002)
Loss on uncollectible pledges	-	-	-	(167,824)
Change in net assets	(3,070,849)	(4,004,420)	(7,075,269)	5,421,201
Net assets:				
Beginning	15,199,543	12,046,406	27,245,949	21,824,748
Ending	\$ 12,128,694	\$ 8,041,986	\$ 20,170,680	\$ 27,245,949

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entities

Consolidated Statements of Activities

Years Ended December 31, 2008 and 2007

(with summarized financial information for the year ended December 31, 2007)

	2008								2007		
	Networks	Partnerships	Gates-Namibia	Special Projects	Communications and Outreach	Total Program Services	Management and General	Fund-raising	Total Supporting Services	Grand Total	Summarized Information
Salaries, payroll taxes and employee benefits	\$ 1,523,965	\$ 381,131	\$ 409,667	\$ 446,815	\$ 218,066	\$ 2,979,644	\$ 1,097,722	\$ 641,696	\$ 1,739,418	\$ 4,719,062	\$ 4,172,483
Consultant and other professional fees	287,453	54,648	1,188,615	25,319	86,948	1,642,983	123,231	8,568	131,799	1,774,782	595,625
Grants and socially responsible investments	325,954	97,000	-	61,966	-	484,920	-	8,000	8,000	492,920	1,773,952
Travel and entertainment	205,757	77,455	205,926	93,030	4,954	587,122	18,453	30,831	49,284	636,406	340,937
Conferences and meetings	342,013	10,433	19,457	145,566	204	517,673	60,562	1,439	62,001	579,674	889,115
Insurance	15,026	2,843	4,624	7,079	1,274	30,846	10,023	5,236	15,259	46,105	36,517
External communications	47,020	3,241	5,865	10,162	35,748	102,036	13,313	5,428	18,741	120,777	74,295
Telephone and fax	25,081	4,651	10,870	8,804	1,195	50,601	19,428	6,633	26,061	76,662	62,129
Utilities	8,920	1,575	1,826	2,599	672	15,592	5,300	2,748	8,048	23,640	9,803
Building and equipment maintenance	35,156	5,886	14,480	15,389	2,724	73,635	21,715	11,262	32,977	106,612	83,345
Office supplies	21,487	1,665	8,731	4,464	7,002	43,349	12,415	3,570	15,985	59,334	38,182
Loan interest and charges	3,826	-	316	1,199	-	5,341	45,473	-	45,473	50,814	25,566
Rent	345,242	62,030	74,349	118,206	26,521	626,348	210,112	108,209	318,321	944,669	890,523
Other expenses	18,843	6,706	3,928	4,453	1,795	35,725	54,802	20,475	75,277	111,002	97,853
Expenses before depreciation and amortization	3,205,743	709,264	1,948,654	945,051	387,103	7,195,815	1,692,549	854,095	2,546,644	9,742,459	9,090,325
Depreciation and amortization	133,352	23,493	45,675	37,102	18,319	257,941	94,559	50,945	145,504	403,445	364,144
Total expenses	\$ 3,339,095	\$ 732,757	\$ 1,994,329	\$ 982,153	\$ 405,422	\$ 7,453,756	\$ 1,787,108	\$ 905,040	\$ 2,692,148	\$ 10,145,904	\$ 9,454,469

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entities

**Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007**

	2008	2007
Cash Flows From Operating Activities:		
Change in net assets	\$ (7,075,269)	\$ 5,421,201
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributed stock	(16,551)	(19,961)
Depreciation and amortization	403,445	364,144
Loss on disposal of equipment	-	1,002
Loss on uncollectible pledges	-	167,824
Net realized and unrealized loss on investments	2,601,512	139,539
Changes in operating assets and liabilities:		
Decrease (increase) in pledges and other receivables	1,950,167	(3,211,893)
Decrease in restricted cash	-	665,504
Decrease (increase) in prepaid expenses and other assets	90,205	(115,689)
Decrease in deferred rent and lease incentive	(25,170)	(7,128)
Increase (decrease) in accounts payable and accrued expenses	158,343	(88,096)
Net cash (used in) provided by operating activities	(1,913,318)	3,316,447
Cash Flows From Investing Activities:		
Proceeds from sale of investments	13,088,838	6,159,511
Purchase of investments	(7,593,062)	(9,419,501)
Purchase of property and equipment	(107,668)	(71,539)
Net cash provided by (used in) investing activities	5,388,108	(3,331,529)
Cash Flows From Financing Activities - payments on capital lease obligation		
	(60,437)	(45,795)
Net increase (decrease) in cash and cash equivalents	3,414,353	(60,877)
Cash:		
Beginning	487,648	548,525
Ending	\$ 3,902,001	\$ 487,648
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 50,814	\$ 25,566

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 1. Description of Organization

The Synergos Institute, Inc. and Consolidated Entities (collectively, the "Organization" or "Synergos") work with voluntary organizations and other groups in supporting local communities develop effective sustainable solutions to poverty problems. The Organization works with partners to mobilize resources and bridge social and economic divides to reduce poverty and increase equity by supporting local communities in developing effective sustainable solutions to problems. The Organization plays a unique role with partner groups in creating successful new models and avenues of action to address poverty through the following programs in the Americas, Asia and Southern Africa:

- Networks - Synergos currently has two global networks: the Senior Fellows and the Global Philanthropists Circle. These networks allow members to learn from each other's work, make new connections, develop their skills and take their work to new levels. Synergos' Senior Fellows is an international network of distinguished civil society leaders committed to addressing poverty and inequity. The network aims to enhance their skills, knowledge and experience through peer-to-peer learning, regional gatherings, learning journeys and workshops. The Global Philanthropists Circle ("GPC") works with private philanthropists to leverage their resources and increase the impact of their philanthropy.
- Partnerships - Synergos' Partnerships program is a global effort to create sustainable social progress by forging collaborations that transcend traditional social boundaries. The program brings together people and institutions in government, business, nonprofits and local communities most affected by poverty and social injustice. As a convener of these partnerships, Synergos helps empower the various stakeholders to better address their issues, and works to identify overall strategies and specific projects that benefit poor and marginalized people in each region.
- African Public Health Leadership & Systems Innovation Initiative (Gates-Namibia) - is creating a replicable model for improving public health leadership and systems performance, beginning in Namibia. The Initiative applies high-performance, business consulting approach called the Innovation Lab. It invests in a strategic set of national health leaders including senior government officials, clinical technicians, community health providers and representatives from business and civil society. Health leadership cohorts are guided through an intensive two-year process, involving leadership capacity building as well as the creation of innovation projects that address urgent health challenges.
- Special Projects (Southern Africa) - Synergos is building upon Southern Africa's deeply rooted traditions of social giving and mutual help to meet challenges. In collaboration with partners we are mobilizing resources and bridging social and economic divides to reduce poverty, increase equity and advance social justice in the region.
- Communications and Outreach disseminates knowledge and information to its constituencies and provides various publications and materials to enhance the work done with partners.

The Synergos Institute, Inc. was organized under the laws of the State of New York on September 26, 1986 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation Law. The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Synergos Institute, Inc. is the founding member and controls the operations and activities of the following entities: Synergos Institute (South Africa), an association incorporated in January 2007 under Section 21 of the South African Companies Act 1973, and The Synergos Namibia Trust, which was established on December 1, 2008 in the Republic of Namibia.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation: The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles in the United States of America as applicable to not-for-profit organizations, and include the accounts and activities of Synergos Institute (South Africa), and The Synergos Namibia Trust. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash: The Organization maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Organization has not experienced any losses on these accounts. At December 31, 2008, substantially all of the Organization's cash and cash equivalents are maintained with one financial institution.

Pledges and Other Receivables: Pledges and other receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Organization estimates doubtful accounts based on historical bad debts, factors related to specific donors' and GPC members' ability to pay and current economic trends. The Organization writes off other receivables against the allowance when a balance is determined to be uncollectible.

Fair Value Implementation: Effective January 1, 2008, the Organization adopted Financial Accounting Standards Board ("FASB") Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. Statement No. 157 applies to all financial instruments that are being measured and reported on a fair value basis. Implementation of Statement No. 157 had no effect on the Organization's assets, net assets or change in net assets as of December 31, 2008 or for the year then ended.

As defined in Statement No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the year ended December 31, 2008, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers or fund managers.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The statement of revenue, expenses and changes in net assets presents investment income, consisting of interest and dividend income. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis.

Property and Equipment: Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Fixed assets under capital leases are recorded in property and equipment. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased asset. Amortization of assets under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, depending on the criteria used to capitalize the lease.

Contributions and Promises to Give: Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. Donor-imposed restrictions that are satisfied in the same reporting period are recorded as unrestricted. Contributions of assets other than cash are recorded at their estimated value.

GPC Membership Dues: GPC membership dues are recognized as revenue in the period such dues are billed.

Government Grant: Federal funds obligated under a government grant are recorded by the Organization when expenditures are incurred and billable to the government. The Organization received a \$1,000,000 cost reimbursement grant for the Middle East North Africa program of which \$137,382 was billable and recorded in 2008 and \$16,289 in 2007.

Donated Services: No amounts have been reflected in the accompanying financial statements for donated services provided by members of the board of directors as these did not meet the criteria for recognition under FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*.

Prior-year Summarized Information: The consolidated financial statements include summarized statements of activities and functional expenses for the year ended December 31, 2007. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2007 from which this summarized information was derived.

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

Reclassification: For comparability, certain 2007 accounts have been reclassified, where appropriate, to conform to the 2008 consolidated financial statement presentation. The reclassification had no effect on the 2007 total change in net assets and net assets.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

New Accounting Standards: The FASB has issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Organization presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The Organization has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Organization will be required to adopt FIN 48 in its 2009 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. Management is currently assessing the impact of FIN 48 on its consolidated financial position and change in its net assets and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

In May 2008, FASB issued FSP No. SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, which makes several changes to the current guidance on consolidation and the equity method of accounting in AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* and the *AICPA Audit and Accounting Guide, Health Care Organizations* (the "Guide"). The purpose of the changes is to make the guidance more consistent between the two pronouncements and with other authoritative standards, where appropriate. This FSP is effective for fiscal years beginning after June 15, 2008, and the adoption of this FSP is not expected to have a material impact on the Organization's consolidated financial position, change in net assets or cash flows.

Note 3. Pledges and Other Receivables, Net

Pledges and other receivables, net, include unconditional promises to give, as follows at December 31:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 4,932,628	\$ 3,192,000
Receivable in one to five years	<u>1,397,681</u>	<u>5,279,271</u>
	6,330,309	8,471,271
Less unamortized discount on pledges receivable	<u>(50,595)</u>	<u>(241,390)</u>
	<u>\$ 6,279,714</u>	<u>\$ 8,229,881</u>

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 3. Pledges and Other Receivables, Net (Continued)

Amounts receivable in less than one year include other receivables for annual membership dues in the GPC program.

The pledges have been adjusted for imputed interest ranging from 3.00% to 4.97%. Management believes that all pledges and accounts receivable will be collected when due. Accordingly, no allowance for doubtful accounts has been recognized in 2008.

Note 4. Fair Value of Financial Instruments and Investments

The following table presents the Organization's financial instruments measured at fair value based on quoted prices in active markets for identical assets (Level 1) on a recurring basis as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Short-term investments (cash and money market funds)	<u>\$ 1,737,094</u>	<u>\$ 3,778,549</u>
Investments:		
Cash and money market funds	\$ 1,341,834	\$ 7,139,386
Equities	3,738,310	5,025,937
Fixed income money market funds	<u>3,286,067</u>	<u>2,240,170</u>
Total investments	<u>\$ 8,366,211</u>	<u>\$ 14,405,493</u>

The components of return on investments during the years ended December 31, 2008 and 2007 are as follows at December 31:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 450,378	\$ 791,019
Realized and unrealized loss on investments	<u>(2,601,512)</u>	<u>(139,539)</u>
	<u>\$ (2,151,134)</u>	<u>\$ 651,480</u>

Substantially all of the Organization's cash and cash equivalents and investment accounts are managed and held by one financial institution.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have a significant impact on the valuation of investment portfolios. As a result, the Organization's investments may have been subject to further decline in value since December 31, 2008.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 5. Property and Equipment, Net

Property and equipment, net, at cost or fair value at date of donation, consists of the following as of December 31:

	<u>2008</u>	<u>2007</u>	Estimated Useful Life
Leasehold improvements	\$ 2,071,362	\$ 2,071,362	Term of lease
Office equipment and furniture	531,414	505,553	5 to 7 years
Computer hardware and software	304,977	266,989	3 to 5 years
Vehicle and other	43,819	-	3 to 5 years
	<u>2,951,572</u>	<u>2,843,904</u>	
Less accumulated depreciation and amortization	<u>(1,024,418)</u>	<u>(620,973)</u>	
	<u>\$ 1,927,154</u>	<u>\$ 2,222,931</u>	

Note 6. Capital Lease Obligation

The Organization leases copier equipment under a capital lease that is payable in aggregate monthly installments of \$5,661 including interest imputed at 10.00% per annum, maturing in January 2010.

At December 31, 2008, the future minimum lease payments under the capital lease are as follows:

Year Ending December 31,

2009	\$ 41,317
2010	<u>2,334</u>
	43,651
Less amount representing interest	<u>1,971</u>
Capital lease obligation	<u><u>\$ 41,680</u></u>

Note 7. Operating Lease Obligations

The Organization has various operating lease obligations for equipment. The future minimum lease payments under the operating leases are \$19,156 and \$1,883 for the years ending December 31, 2009 and 2010, respectively.

Note 8. 403(b) Retirement Plan

The Organization maintains a defined contribution plan under Section 403(b) of the IRS Code covering substantially all employees. The Organization contributes an amount equivalent to 5% of the employee's eligible compensation. Contributions to the plan were included in salaries, payroll taxes and employee benefits in the consolidated statement of functional expenses and amounted to approximately \$136,000 and \$138,000 during the years ended December 31, 2008 and 2007, respectively. Additionally, participants may make voluntary contributions, subject to plan limitations.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 9. Net Assets Released from Restrictions

During the years ended December 31, 2008 and 2007, net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes or by occurrence of other events specified by donors:

	<u>2008</u>	<u>2007</u>
Various projects (networks, partnerships, special projects, and communications and outreach)	\$ 1,874,699	\$ 1,362,059
Gates Foundation - Namibia	2,232,607	-
Reserve Fund	<u>701,250</u>	<u>2,743,664</u>
	<u>\$ 4,808,556</u>	<u>\$ 4,105,723</u>

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Various projects (networks, partnerships, special projects, and communications and outreach)	\$ 2,533,523	\$ 3,125,005
Gates Foundation - Namibia	4,851,702	6,919,790
Reserve Fund	<u>656,761</u>	<u>2,001,611</u>
	<u>\$ 8,041,986</u>	<u>\$ 12,046,406</u>

Note 11. Board-designated Endowment Funds

In 2006, the Organization's board of directors designated \$10,500,000 of the unrestricted net assets for long-term investments. The Organization has the objective of maintaining the purchasing power of these investments over time. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current after-inflation and after investment management expenses objective is to return 5%. Actual returns in any given year may vary from this amount. Earnings on these investment funds of up to 5% of the value of the board-designated investment funds, or a minimum of \$500,000 a year will be available for the support of the Organization's general operations.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 11. Board-designated Endowment Funds (Continued)

The following table summarizes the changes in the board-designated endowment funds during the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	<u>\$ 10,671,345</u>	<u>\$ 10,426,473</u>
Additions to fund during the year	<u>-</u>	<u>153,527</u>
Investment returns:		
Investment income	301,355	303,229
Net depreciation	(2,599,657)	(209,703)
Investment fees	<u>(24,199)</u>	<u>(2,181)</u>
Total investment returns (losses)	<u>(2,322,501)</u>	<u>91,345</u>
Balance, end of year	<u>\$ 8,348,844</u>	<u>\$ 10,671,345</u>

Note 12. Special Event, Net

Income from the Organization's annual UFAN event, net of direct costs, is as follows at December 31:

	<u>2008</u>	<u>2007</u>
Gross receipts	<u>\$ 921,892</u>	<u>\$ 1,178,782</u>
Less direct costs	<u>(255,770)</u>	<u>(339,037)</u>
	<u>\$ 666,122</u>	<u>\$ 839,745</u>

Note 13. Other Commitments and Contingency

The Organization has an employment agreement with its president.

In February 2006, the Organization entered into a new lease for its offices at 51 Madison Avenue, New York City. The lease will expire in December 2016, and requires payment of escalation rentals for certain operating expenses and real estate taxes. The Organization has entered into a standby letter of credit in the amount of \$665,504 with its primary bank in lieu of providing a security deposit on the lease.

The Organization received lease incentives of approximately \$700,000 from the landlord for leasehold improvements. Such amount is being amortized over the term of the lease. The balance of the deferred incentive, including the value of certain rent-free periods as of December 31, 2008 is approximately \$1,383,000.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 13. Other Commitments and Contingency (Continued)

The Organization sublet a portion of its offices and will receive sublease payments through August 2011. The sublease provides for the Organization to charge for increases in real estate taxes and operating costs in addition to minimum rentals. Minimum future rental payments under this lease and sublease are summarized as follows:

<u>Year Ending December 31,</u>	<u>Gross</u>	<u>Sublease</u>	<u>Net</u>
2009	\$ 938,474	\$ 262,536	\$ 675,938
2010	957,243	279,187	678,056
2011	979,652	189,810	789,842
2012	1,090,866	-	1,090,866
2013	1,112,684	-	1,112,684
Thereafter	3,431,959	-	3,431,959
	<u>\$ 8,510,878</u>	<u>\$ 731,533</u>	<u>\$ 7,779,345</u>

Rent expense (including charges for operating expenses and taxes) is recognized using the straight-line method over the term of the lease, and amounted to \$894,900 for each of the two years ended December 31, 2008 and 2007. Rental income is also recognized using the straight-line method over the term of the lease and amounted to \$256,878, for each of the years ended December 31, 2008 and 2007.

The Organization also entered into a two-year operating lease agreement, expiring in 2010, for an office space in Namibia. The estimated annual commitment on this agreement is approximately \$27,000.

Certain grants may be subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying consolidated financial statements for such potential claims.

The Synergos Institute, Inc. and Consolidated Entities

Notes to Consolidated Financial Statements

Note 14. Summarized Financial Data

The summarized financial data of The Synergos Institute, Inc. and its consolidated entities included in these financial statements prior to inter-entity eliminations are as follows:

	2008			2007	
	The Synergos Institute, Inc.	The Synergos Institute (South Africa)	The Synergos Namibia Trust	The Synergos Institute, Inc.	The Synergos Institute (South Africa)
Total assets	\$ 16,823,418	\$ 415,421	\$ 5,080,022	\$ 28,656,473	\$ 664,921
Total liabilities	1,961,179	11,287	175,715	2,073,990	1,455
Net assets	\$ 14,862,239	\$ 404,134	\$ 4,904,307	\$ 26,582,483	\$ 663,466
Total support, revenue, and gains	\$ 4,926,600	\$ 290,118	\$ 164,520	\$ 14,270,856	\$ 773,640
Total expenses and losses	9,467,360	756,540	2,232,607	8,951,501	671,794
Change in net assets	\$ (4,540,760)	\$ (466,422)	\$ (2,068,087)	\$ 5,319,355	\$ 101,846