

THE SYNERGOS INSTITUTE, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2004

THE SYNERGOS INSTITUTE, INC.

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Synergos Institute, Inc.

We have audited the accompanying statement of financial position of The Synergos Institute, Inc. (the "Organization") as of December 31, 2004, and the related 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 comparative information has been derived from the Organization's 2003 financial statements and, in our report dated March 23, 2004, we expressed an unqualified opinion on those financial 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 financial statements referred to above present fairly, in all material respects, the financial position of The Synergos Institute, Inc. as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

March 25, 2005

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THE SYNERGOS INSTITUTE, INC.

STATEMENT OF FINANCIAL POSITION

December 31,	2004	2003
ASSETS		
Cash	\$ 1,312,144	\$ 397,852
Pledges and Other Receivables	9,606,206	3,489,728
Investments, at fair value	404,251	1,671,312
Prepaid Expenses and Other Assets	159,246	17,156
Property and Equipment, net	8,139,065	8,411,032
Total Assets	\$19,620,912	\$13,987,080
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 414,833	\$ 346,266
Capital lease obligations		20,278
Deferred and other lease obligations	76,048	
Note payable	5,850,000	5,850,000
Total liabilities	6,340,881	6,216,544
Commitments		
Net Assets:		
Unrestricted:		
Invested in property and equipment	2,289,065	2,540,754
Long-term investments	404,251	1,671,312
Undesignated	1,751,409	358,514
Total unrestricted net assets	4,444,725	4,570,580
Temporarily restricted net assets	8,835,306	3,199,956
Total net assets	13,280,031	7,770,536
Total Liabilities and Net Assets	\$19,620,912	\$13,987,080

See Notes to Financial Statements

THE SYNERGOS INSTITUTE, INC.

STATEMENT OF ACTIVITIES

(with summarized financial information for the year ended December 31, 2003)

Year ended December 31,	2004			2003
	Unrestricted	Temporarily Restricted	Total	Summarized Information Total
Support and revenue:				
Contributions:				
Foundations	\$ 750	\$ 4,687,597	\$ 4,688,347	\$ 646,844
Corporations	3,487	235,000	238,487	60,000
Individuals	58,398	3,883,762	3,942,160	566,802
GPC membership dues	1,252,553		1,252,553	1,108,332
Government grant	462,348		462,348	453,318
Special event, net	976,145		976,145	752,234
Return on investments	13,751		13,751	114,834
Other income	214,045		214,045	120,532
Net assets released from restrictions - satisfaction of program and time restrictions	3,171,009	(3,171,009)		
Total support and revenue	6,152,486	5,635,350	11,787,836	3,822,896
Expenses:				
Program services:				
Latin America	940,421		940,421	700,858
South East Asia	357,569		357,569	469,062
Southern Africa	668,716		668,716	657,928
Bridging Leadership	136,476		136,476	432,717
Border Project	704,802		704,802	732,391
Global Philanthropists Circle	1,001,196		1,001,196	622,919
Foundation Building Services	305,827		305,827	334,241
Multi-stakeholder	141,090		141,090	
Communications and Outreach	161,059		161,059	222,144
Total program services	4,417,156		4,417,156	4,172,260
Supporting services:				
Management and general	1,156,819		1,156,819	857,571
Fund-raising	669,876		669,876	450,104
Total supporting services	1,826,695		1,826,695	1,307,675
Total expenses	6,243,851		6,243,851	5,479,935
Change in net assets	(91,365)	5,635,350	5,543,985	(1,657,039)
Loss on disposal of equipment	(34,490)		(34,490)	
Net assets at beginning of year	4,570,580	3,199,956	7,770,536	9,427,575
Net assets at end of year	\$4,444,725	\$ 8,835,306	\$13,280,031	\$ 7,770,536

See Notes to Financial Statements

THE SYNERGOS INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

(with summarized financial information for the year ended December 31, 2003)

Year ended December 31,

2004

2003

	Program Services									Supporting Services			Total	Summarized Comparative Total	
	Latin America	South East Asia	Southern Africa	Bridging Leadership	Border Project	Global Philanthropists Circle	Foundation Building Services	Multi-stakeholder	Communications and Outreach	Total Program Services	Management and General	Fund-raising			Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 480,695	\$ 225,853	\$ 366,948	\$ 48,978	\$ 245,206	\$ 418,849	\$ 161,181	\$ 106,452	\$ 62,388	\$ 2,116,550	\$ 823,782	\$ 439,187	\$ 1,262,969	\$ 3,379,519	\$ 3,076,998
Consultant and other professional fees	85,461	12,986	22,936	9,198	49,760	29,481	6,984	4,920	32,442	254,168	119,772	37,044	156,816	410,984	477,646
Grants and socially responsible investments	81,000		71,000		183,211	7,500				342,711				342,711	125,075
Travel and entertainment	82,018	33,746	79,765	3,065	39,596	104,021	20,316	19,498	29	382,054	16,167	12,089	28,256	410,310	480,887
Conferences and meetings	79,691	19,457	20,933	15,971	122,755	182,979	72,804	(439)	101	514,252	19,941	4,482	24,423	538,675	292,872
Insurance	6,341	4,160	5,926	1,833	1,629	4,706	2,966	483	1,719	29,763	15,265	6,556	21,821	51,584	46,972
External communications	25,187	3,715	9,025	1,243	21,560	3,492	2,951	183	34,017	101,373	6,165	1,103	7,268	108,641	66,483
Telephone and fax	7,850	4,110	11,880	1,853	5,259	4,143	2,162	489	3,678	41,424	18,743	17,309	36,052	77,476	115,211
Utilities	7,866	4,563	5,401	2,844	3,862	5,534	2,972	1,187	1,936	36,165	7,180	3,964	11,144	47,309	47,091
Building and equipment maintenance and service contracts	11,762	7,466	12,831	4,731	6,547	8,781	4,500	591	2,967	60,176	37,241	29,264	66,505	126,681	128,112
Office supplies	5,120	2,593	4,353	997	5,032	4,633	1,400	412	832	25,372	18,406	2,822	21,228	46,600	75,501
Loan interest and charges	24,091	14,633	18,206	10,405	5,766	19,970	10,854	3,557	6,035	113,517	23,429	20,655	44,084	157,601	167,505
Rent	7,799	1,982	11,473		5,640					26,894				26,894	21,364
Bad debts						175,000				175,000		4,500	4,500	179,500	31,946
Other expenses	379	961	3,498	19,219	934	3,053	352	1,060	5,822	35,278	8,737	1,147	9,884	45,162	40,307
Functional expenses before depreciation and amortization	905,260	336,225	644,175	120,337	696,757	972,142	289,442	138,393	151,966	4,254,697	1,114,828	580,122	1,694,950	5,949,647	5,193,970
Depreciation and amortization	35,161	21,344	24,541	16,139	8,045	29,054	16,385	2,697	9,093	162,459	41,991	89,754	131,745	294,204	285,965
Total functional expenses	\$ 940,421	\$ 357,569	\$ 668,716	\$ 136,476	\$ 704,802	\$ 1,001,196	\$ 305,827	\$ 141,090	\$ 161,059	\$ 4,417,156	\$ 1,156,819	\$ 669,876	\$ 1,826,695	\$ 6,243,851	\$ 5,479,935

See Notes to Financial Statements

THE SYNERGOS INSTITUTE, INC.

STATEMENT OF CASH FLOWS

Year ended December 31,	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 5,543,985	\$(1,657,039)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributed stock	(45,703)	(20,221)
Depreciation and amortization	294,204	285,965
Realized and unrealized gain on investments	(1,450)	(98,503)
Changes in operating assets and liabilities:		
(Increase) decrease in pledges and other receivables	(6,116,478)	1,846,266
(Increase) decrease in prepaid expenses and other assets	(142,090)	22,753
Increase in accounts payable and accrued expenses	68,567	46,115
Increase in deferred and other lease obligations	76,048	
Net cash provided by (used in) operating activities	(322,917)	425,336
Cash flows from investing activities:		
Proceeds from sale of investments	1,314,214	20,343
Purchase of investments		(343,395)
Purchase of property and equipment	(56,727)	(46,434)
Net cash provided by (used in) investing activities	1,257,487	(369,486)
Cash flows used in financing activity - principal payment on capital lease obligation	(20,278)	(11,568)
Net increase in cash	914,292	44,282
Cash at beginning of year	397,852	353,570
Cash at end of year	\$ 1,312,144	\$ 397,852
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 132,987	\$ 191,968

See Notes to Financial Statements

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2004

1. DESCRIPTION OF ORGANIZATION:

The Synergos Institute, Inc. (the "Organization") works with voluntary organizations and other groups in supporting local communities in developing effective sustainable solutions to poverty problems. It fosters the use of participatory approaches to address these problems and actively seeks to involve all groups having a stake in a problem in finding effective solutions to it. 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 and departments.

The Organization adopts an integrated approach to the delivery of its programs and services to accomplish the above overall mission, as follows:

- The Organization's management team created a Country Programs Department that comprises three regional programs (Latin America, South East Asia and Southern Africa) with programmatic activities in nine countries (Philippines, Indonesia, Thailand, Mexico, Brazil, Ecuador, Mozambique, Zimbabwe and South Africa). These programmatic activities include services provided by other program areas in foundation building, private philanthropy and bridging divides.
- Bridging Leadership works with bridging institutions and collaborative leadership to build effective collaboration and partnerships across divides.
- Border Project is a donor collaborative program for the U.S./Mexico border that is working to strengthen community foundations and build effective collaboration and partnerships to reduce poverty within the border.
- Global Philanthropists Circle ("GPC") works with private philanthropists to leverage their resources and build collaboration.
- Foundation Building Services works with foundations to mobilize resources and build collaboration.
- Multi-stakeholder Partnerships reduce poverty and increase equity through systemic change. The program is designed to initiate, convene, resource and implement a significant number of global, regional and national consensus-building and problem-solving initiatives. These partnership activities are directed at addressing a broad spectrum of humanity's most critical challenges. The program also conducts R&D and capacity building in the area of whole-systems multi-stakeholder partnerships.
- Communications and Outreach, which disseminates knowledge and information to its constituencies, provides various publications and materials to enhance the work done with partners.

The Organization 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 "Code").

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

The Organization has been awarded a grant from the United States Agency for International Development ("USAID") to assist the nongovernmental organizations' development programs with building a sustainable financial and technical resource base in Brazil, Mexico and Mozambique. This grant requires the Organization to match, in agreed proportions (50% of the total budgeted program expenditures of approximately \$3 million), the government funding as stated in the grant budget.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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. Contributions of assets other than cash are recorded at their estimated value.

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

Federal funds obligated under a government grant are recorded by the Organization when expenditures are incurred and billable to the government.

The financial statements include summarized statements of activities and functional expenses for the year ended December 31, 2003. 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, 2003 from which this summarized information was derived.

No amounts have been reflected in the accompanying financial statements for donated services provided by members of the board of directors.

Investments are stated at fair value, which is the prevailing market value, with the resulting change in unrealized gains or losses included in investment income in the statement of activities. Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date.

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.

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 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.

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2004

Depreciation and amortization of property and equipment is provided for by the straight-line method over the estimated useful lives of the related assets.

Fixed assets under capital leases are recorded in property and equipment with corresponding obligations carried in short- and long-term liabilities. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased asset. Amortization on assets leased 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

3. PLEDGES AND OTHER RECEIVABLES:

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

December 31,	2004	2003
Receivable in less than one year	\$5,398,530	\$1,608,075
Receivable in one to five years	4,455,361	926,666
Receivable in more than five years	50,000	1,074,043
	9,903,891	3,608,784
Less allowance for doubtful accounts	(75,000)	
Less unamortized discount on pledges receivable	(222,685)	(119,056)
	\$9,606,206	\$3,489,728

The pledges have been adjusted for imputed interest at 3%. In addition, receivables due in less than one year include other receivables for annual membership dues in the GPC program.

4. INVESTMENTS:

Investments consist of the following:

December 31,	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$340,313	\$340,313	\$ 502,417	\$ 502,417
Mutual funds	61,814	63,938	33,067	34,930
Limited partnership			600,000	1,133,965
	\$402,127	\$404,251	\$1,135,484	\$1,671,312

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2004

Return on investments is comprised of the following:

Year ended December 31,	2004	2003
Interest and dividends	\$12,301	\$ 16,331
Realized and unrealized gain on investments	1,450	98,503
	\$13,751	\$114,834

5. PROPERTY AND EQUIPMENT, NET:

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

December 31,	2004	2003	Estimated Useful Life
Land	\$ 2,000,000	\$ 2,000,000	
Building	5,777,230	5,777,230	40 years
Building improvements	1,341,858	1,301,858	40 years
Office equipment and furniture	143,012	205,234	5 to 7 years
Computer hardware and software	296,944	286,610	3 to 5 years
	9,559,044	9,570,932	
Less accumulated depreciation and amortization	(1,419,979)	(1,159,900)	
	\$ 8,139,065	\$ 8,411,032	

6. NOTE PAYABLE:

The Organization has a financing agreement with a bank that provides for borrowings under a revolving credit agreement of up to \$5,850,000. The revolver bears interest at a floating rate selected at the Organization's discretion of the bank's prime rate (5.00% and 4.00% as of December 31, 2004 and 2003, respectively) or 1.25% in excess of the LIBOR. The note matures on June 24, 2007. The interest rate at December 31, 2004 is 2.55%.

7. CAPITAL LEASE OBLIGATION:

The Organization leases telephone equipment under a capital lease which was payable in aggregate monthly installments of \$1,266 including interest imputed at 9.03% per annum, maturing in April 2005. The Organization fully paid this obligation in 2004.

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2004

**8. OPERATING
LEASE
OBLIGATION:**

The Organization entered into operating lease obligations for equipment during 2004. The future minimum lease payments under the operating lease are as follows:

Year ending December 31,	
2005	\$ 42,400
2006	42,000
2007	59,416
2008	67,929
2009	42,316
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	\$254,061

**9. 403(b)
RETIREMENT
PLAN:**

The Organization maintains a defined contribution plan under Section 403(b) of the Code covering substantially all employees. Under this plan, employer contributions are based on a percentage of the employees' salaries. Contributions to the plan were included in salaries, payroll taxes and employee benefits in the statement of functional expenses and amounted to approximately \$227,000 and \$179,000 during the years ended December 31, 2004 and 2003, respectively. Additionally, participants may make voluntary contributions, subject to plan limitations.

**10. NET ASSETS
RELEASED FROM
RESTRICTIONS:**

During the year ended December 31, 2004, 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:

Various programs (Global Philanthropy, Latin America, South East Asia, Southern Africa, Bridging Leadership, Border Project, Multi-stakeholder and Global Philanthropists Circle)	\$1,929,009
Capital campaign - reserve fund	1,242,000
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	\$3,171,009

The Organization started soliciting funds for a new capital campaign in 2002 to build an endowment fund, building pay-off and preservation fund, reserve (emergency) fund and for expanded programmatic and operating support. During 2004 and 2003, funds amounting to \$4,088,000 and \$200,000, respectively, were pledged towards this capital campaign.

THE SYNERGOS INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2004

**11. TEMPORARILY
RESTRICTED
NET ASSETS:**

Temporarily restricted net assets are restricted for the following purposes at December 31, 2004:

Various programs (Global Philanthropy, Latin America, South East Asia, Southern Africa, Bridging Leadership, Border Project, Multi-stakeholder and Global Philanthropists Circle)	\$4,254,332
Capital campaign - reserve fund	4,580,974
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	\$8,835,306

12. SPECIAL EVENTS:

Income from the Organization's annual U.N. event, net of direct costs, is as follows:

Year ended December 31,	2004	2003
Gross receipts	\$1,241,936	\$1,008,981
Less direct costs	265,791	256,747
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	\$ 976,145	\$ 752,234