

McGladrey & Pullen
Certified Public Accountants

The Synergos Institute, Inc. and Consolidated Entity

Consolidated Financial Statements

December 31, 2007

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The Synergos Institute, Inc.

We have audited the accompanying consolidated statement of financial position of The Synergos Institute, Inc. and Consolidated Entity (collectively, the "Organization") as of December 31, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2006 financial statements. The financial statements of the Organization for the year ended December 31, 2006 were audited by Goldstein Golub Kessler LLP, independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP on October 3, 2007. Goldstein Golub Kessler LLP's report dated April 18, 2007, 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 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Synergos Institute, Inc. and Consolidated Entity as of December 31, 2007, and the results of its operations and its 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 11, 2008

The Synergos Institute, Inc. and Consolidated Entity

Consolidated Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash	\$ 487,648	\$ 548,525
Cash - restricted	-	665,504
Pledges and Other Receivables, net	8,229,881	5,185,812
Investments, at fair value	18,184,042	15,043,630
Prepaid Expenses and Other Assets	196,892	81,203
Property and Equipment, net	<u>2,222,931</u>	<u>2,516,538</u>
Total assets	<u>\$ 29,321,394</u>	<u>\$ 24,041,212</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 565,183	\$ 653,279
Capital lease obligation	102,117	147,912
Deferred rent and lease incentive	<u>1,408,145</u>	<u>1,415,273</u>
Total liabilities	<u>2,075,445</u>	<u>2,216,464</u>
Commitments and Contingency		
Net Assets:		
Unrestricted:		
Invested in property and equipment	2,120,814	2,368,626
Designated for long-term investment	10,671,345	10,426,473
Undesignated	<u>2,407,384</u>	<u>1,895,095</u>
Total unrestricted net assets	15,199,543	14,690,194
Temporarily restricted net assets	<u>12,046,406</u>	<u>7,134,554</u>
Total net assets	<u>27,245,949</u>	<u>21,824,748</u>
Total liabilities and net assets	<u>\$ 29,321,394</u>	<u>\$ 24,041,212</u>

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entity

Consolidated Statements of Activities

(with summarized financial information for the year ended December 31, 2006)

Years Ended December 31, 2007 and 2006

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Summarized Information Total
Support and revenue:				
Contributions:				
Foundations	\$ 1,376,918	\$ 858,753	\$ 2,235,671	\$ 4,534,178
Corporations	-	-	-	210,032
Individuals	688,749	1,394,032	2,082,781	1,546,462
GPC membership dues	1,724,874	-	1,724,874	1,588,732
Gates Foundation grant	-	6,910,382	6,910,382	-
Government grant	16,289	-	16,289	-
Special event, net	839,745	-	839,745	498,272
Return on investments available for operating activities	-	-	-	-
Other income	282,331	9,408	291,739	59,876
Net assets released from restrictions - satisfaction of program and time restrictions	583,274	-	583,274	386,915
	-	-	-	-
	4,105,723	(4,105,723)	-	-
Total support and revenue	9,617,903	5,066,852	14,684,755	8,824,467
Expenses:				
Program services:				
Strengthening Bridging Organizations	3,329,131	-	3,329,131	3,431,997
Multi-Stakeholder Partnerships	2,087,404	-	2,087,404	3,439,282
Global Philanthropists Circle	1,351,886	-	1,351,886	1,184,442
Communications and Outreach	257,429	-	257,429	116,898
Total program services	7,025,850	-	7,025,850	8,172,619
Supporting services:				
Management and general	1,817,315	-	1,817,315	1,686,611
Fund-raising	611,304	-	611,304	582,377
Total supporting services	2,428,619	-	2,428,619	2,268,988
Total expenses	9,454,469	-	9,454,469	10,441,607
Results of operations	163,434	5,066,852	5,230,286	(1,617,140)
Return on investments on board-designated funds	359,741	-	359,741	447,504
Loss on disposal of equipment	(1,002)	-	(1,002)	(29,385)
Loss on uncollectible pledges	(12,824)	(155,000)	(167,824)	(37,300)
Net realized gain on sale of building	-	-	-	12,396,409
Change in net assets	509,349	4,911,852	5,421,201	11,160,088
Net assets:				
Beginning	14,690,194	7,134,554	21,824,748	10,664,660
Ending	\$ 15,199,543	\$ 12,046,406	\$ 27,245,949	\$ 21,824,748

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entity

Consolidated Statements of Functional Expenses
 (with summarized financial information for the year ended December 31, 2006)
 Years Ended December 31, 2007 and 2006

	2007					2006				
	Program Services					Supporting Services				
	Strengthening Bridging Organizations	Multi- stakeholder	Global Philanthropists Circle	Communi- cations and Outreach	Total Program Services	Management and General	Fund- raising	Total Supporting Services	Grand Total	Summarized Information Total
Salaries, payroll taxes and employee benefits	\$ 1,175,820	\$ 672,738	\$ 664,627	\$ 104,985	\$ 2,618,170	\$ 1,158,788	\$ 395,525	\$ 1,554,313	\$ 4,172,483	\$ 3,967,723
Consultant and other professional fees	180,464	172,037	22,358	93,033	467,892	95,332	32,401	127,733	595,625	1,521,188
Grants and socially responsible investments	871,983	886,427	10,042	-	1,768,452	-	5,500	5,500	1,773,952	2,207,181
Travel and entertainment	157,026	100,494	33,999	5,178	296,697	12,913	31,327	44,240	340,937	426,922
Conferences and meetings	373,641	101,727	401,763	655	877,786	5,128	6,201	11,329	889,115	636,344
Insurance	13,167	3,372	5,055	337	21,931	11,804	2,782	14,586	36,517	34,345
External communications	27,803	5,717	8,504	18,442	60,466	11,080	2,749	13,829	74,295	75,622
Telephone and fax	24,855	5,029	4,984	339	35,207	22,490	4,432	26,922	62,129	54,052
Utilities	3,574	940	1,391	90	5,995	3,053	755	3,808	9,803	54,392
Building and equipment maintenance and service contracts	29,778	7,919	11,299	760	49,756	26,699	6,890	33,589	83,345	107,813
Office supplies	18,716	2,426	4,156	507	25,805	9,457	2,920	12,377	38,182	34,964
Loan interest and charges	4,531	644	964	63	6,202	18,845	519	19,364	25,566	180,246
Rent	314,606	91,410	123,538	8,424	537,978	280,535	72,010	352,545	890,523	756,059
Other expenses	22,636	2,656	8,829	1,752	35,873	42,633	19,347	61,980	97,853	44,326
Expenses before depreciation and amortization	3,218,600	2,053,536	1,301,509	234,565	6,808,210	1,698,757	583,358	2,282,115	9,090,325	10,101,177
Depreciation and amortization	110,531	33,868	50,377	22,864	217,640	118,558	27,946	146,504	364,144	340,430
Total expenses	\$ 3,329,131	\$ 2,087,404	\$ 1,351,886	\$ 257,429	\$ 7,025,850	\$ 1,817,315	\$ 611,304	\$ 2,428,619	\$ 9,454,469	\$ 10,441,607

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entity

Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities:		
Change in net assets	\$ 5,421,201	\$ 11,160,088
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributed stock	(19,961)	(58,050)
Depreciation and amortization	364,144	340,430
Loss on disposal of equipment	1,002	29,385
Loss on uncollectible pledges	167,824	37,300
Net realized gain on sale of building	-	(12,396,409)
Net realized and unrealized loss on investments	139,539	1,445
Changes in operating assets and liabilities:		
(Increase) decrease in pledges and other receivables	(3,211,893)	1,758,686
Decrease (increase) in restricted cash	665,504	(665,504)
Increase in prepaid expenses and other assets	(115,689)	(10,112)
(Decrease) increase in deferred rent and lease incentive	(7,128)	1,415,273
Decrease in accounts payable and accrued expenses	(88,096)	(1,277,350)
Net cash provided by operating activities	3,316,447	335,182
Cash Flows From Investing Activities:		
Proceeds from sale of investments	6,159,511	506,345
Purchase of investments	(9,419,501)	(13,548,484)
Net proceeds from sale of building	-	21,213,856
Purchase of property and equipment	(71,539)	(2,607,754)
Net cash (used in) provided by investing activities	(3,331,529)	5,563,963
Cash Flows From Financing Activities:		
Proceeds from line of credit	-	4,000,000
Payment on line of credit	-	(4,000,000)
Payment on note payable	-	(5,850,000)
Principal payment on capital lease obligation	(45,795)	(26,693)
Net cash used in financing activities	(45,795)	(5,876,693)
Net (decrease) increase in cash	(60,877)	22,452
Cash:		
Beginning	548,525	526,073
Ending	\$ 487,648	\$ 548,525
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 25,566	\$ 203,049

See Notes to Consolidated Financial Statements.

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 1. Description of Organization

The Synergos Institute, Inc. and Consolidated Entity (the "Organization") works 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 its various programs in the Americas, Asia and Southern Africa, with activities primarily in 11 countries (Brazil, Ecuador, India, Indonesia, Mexico, Mozambique, the Philippines, South Africa, Thailand, the United States and Zimbabwe). The following are the principal groupings of these programs.

- Strengthening Bridging Organizations program works primarily in Latin America, Southern Africa and Thailand with foundations, foundation support organizations and associations of foundations to build effective collaboration and partnerships across divides. It also runs a Border Philanthropy Partnership which is a donor collaborative program along the U.S./Mexico border working to strengthen community foundations and build effective collaboration and partnerships to reduce poverty and improve quality of life on both sides of the border.
- Multi-Stakeholder Partnerships ("MSP") program strives to 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. Working with Unilever, UNICEF-India and a group of Indian organizations, the Organization has launched a Partnership for Child Nutrition project in India that aims to reduce child malnutrition.
- Global Philanthropists Circle ("GPC") works with private philanthropists to leverage their resources and increase the impact of their philanthropy.
- Communications and Outreach disseminates knowledge and information to its constituencies and 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 consolidated financial statements include the accounts of the Organization and The Synergos Institute (South Africa) (collectively, the "Organization"), an association incorporated in January 2007 under Section 21 of the South African Companies Act 1973. The Organization is the founding member and controls the operations and activities of The Synergos Institute (South Africa). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 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

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

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 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 Organization received a \$750,000 cost reimbursement grant for the Middle East North Africa program of which \$16,289 was billable and recorded in 2007.

The consolidated financial statements include summarized statements of activities and functional expenses for the year ended December 31, 2006. 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, 2006 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 consolidated 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 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.

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.

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.

Certain 2006 accounts have been reclassified to conform with the 2007 consolidated financial statement presentation. The reclassification had no effect on the 2006 total change in net assets and net assets.

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"), which is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is market-based measurement, not an entity specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. The adoption of SFAS No. 157 is not expected to have a material impact on the Organization's consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on the Organization's consolidated financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). 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 comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2007. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. The adoption of FIN 48 is not expected to have a material impact on the Organization's consolidated financial position, results of operations 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>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 3,192,000	\$ 3,202,676
Receivable in one to five years	<u>5,279,271</u>	<u>2,099,333</u>
	8,471,271	5,302,009
Less unamortized discount on pledges receivable	<u>(241,390)</u>	<u>(116,197)</u>
	<u>\$ 8,229,881</u>	<u>\$ 5,185,812</u>

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

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

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

The pledges have been adjusted for imputed interest 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 2007.

Note 4. Investments

Investments, at fair value, consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Money market funds	\$10,917,935	\$15,043,630
Equities	5,025,937	-
Fixed income	<u>2,240,170</u>	<u>-</u>
	<u>\$18,184,042</u>	<u>\$15,043,630</u>

The components of return on investments during the years ended December 31, 2007 and 2006 are as follows at December 31:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 791,019	\$ 508,825
Realized and unrealized loss on investments	<u>(139,539)</u>	<u>(1,445)</u>
	<u>\$ 651,480</u>	<u>\$ 507,380</u>

In 2006, the board of directors of the Organization has designated approximately \$10,500,000 of the net proceeds from the sale of property (Note 5) for long-term investments. 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. No transfers of investment earnings from board-designated investment funds to support general operations were made during 2007 and 2006.

Money market funds include \$3,778,549 restricted for use in the African Public Health Leadership and Systems Innovation Initiative.

The Synergos Institute, Inc. and Consolidated Entity

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>2007</u>	<u>2006</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 2,071,362	\$ 2,063,872	Term of lease
Office equipment and furniture	505,553	512,431	5 to 7 years
Computer hardware and software	<u>266,989</u>	<u>198,402</u>	3 to 5 years
	2,843,904	2,774,705	
Less accumulated depreciation and amortization	<u>(620,973)</u>	<u>(258,167)</u>	
	<u>\$ 2,222,931</u>	<u>\$ 2,516,538</u>	

In June 2006, the Organization completed the sale of its property at 9 E. 69th Street, New York, NY 10021 for \$22,500,000. The sale resulted in a net gain of approximately \$12,400,000, as follows:

Selling price	\$ 22,500,000
Less cost of land, building and improvements, net of accumulated depreciation of \$1,436,397	(8,817,447)
Closing and other incidental costs	<u>(1,286,144)</u>
Net realized gain on sale of property	<u>\$ 12,396,409</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, 2007, the future minimum lease payments under the capital lease are as follows:

Year ending December 31,	
2008	\$ 67,929
2009	41,317
2010	<u>2,334</u>
	111,580
Less amount representing interest	<u>9,463</u>
Capital lease obligation	<u>\$ 102,117</u>

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 7. Operating Lease Obligations

The Organization has various operating lease obligations for equipment. The future minimum lease payments under the operating leases are as follows:

Year ending December 31,

2008	\$ 33,173
2009	19,156
2010	<u>1,883</u>
	<u>\$ 54,212</u>

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. Under this plan, employer contributions are based on a percentage of the employees' salaries as may be determined by the Organization's board of directors. The rate of contribution was 5% of the employee's eligible compensation for 2007 and 2006. Contributions to the plan were included in salaries, payroll taxes and employee benefits in the consolidated statement of functional expenses and amounted to approximately \$138,000 and \$135,000 during the years ended December 31, 2007 and 2006, respectively. Additionally, participants may make voluntary contributions, subject to plan limitations.

Note 9. Net Assets Released from Restrictions

During the year ended December 31, 2007 and 2006, 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>2007</u>	<u>2006</u>
Various programs (Strengthening Bridging Organizations, Multi-stakeholder, Global Philanthropists Circle and Communications and Outreach)	\$ 1,362,059	\$ 3,982,094
Reserve fund	<u>2,743,664</u>	<u>1,613,587</u>
	<u>\$ 4,105,723</u>	<u>\$ 5,595,681</u>

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Various programs (Strengthening Bridging Organizations, Multi-stakeholder, Global Philanthropists Circle and Communications and Outreach)	\$ 3,125,005	\$ 3,528,312
Gates Foundation	6,919,790	-
Reserve fund	<u>2,001,611</u>	<u>3,606,242</u>
	<u>\$ 12,046,406</u>	<u>\$ 7,134,554</u>

Note 11. Special Event, Net

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

	<u>2007</u>	<u>2006</u>
Gross receipts	\$ 1,178,782	\$ 850,219
Less direct costs	<u>(339,037)</u>	<u>(351,947)</u>
	<u>\$ 839,745</u>	<u>\$ 498,272</u>

Note 12. 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, 2007 is approximately \$1,408,000.

The Synergos Institute, Inc. and Consolidated Entity

Notes to Consolidated Financial Statements

Note 12. Other Commitments and Contingency (continued)

In August 2006, 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:

Year ending December 31,	<u>Gross</u>	<u>Sublease</u>	<u>Net</u>
2008	\$ 920,072	\$ 250,629	\$ 669,443
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
Thereafter	<u>4,544,643</u>	<u>-</u>	<u>4,544,643</u>
	<u>\$ 9,430,950</u>	<u>\$ 982,162</u>	<u>\$ 8,448,788</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 and \$750,380 for the years ended December 31, 2007 and 2006, respectively. Rental income is also recognized using the straight-line method over the term of the lease and amounted to \$256,878 and \$107,033, for the years ended December 31, 2007 and 2006, respectively.

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.