

**TRUST FOR CIVIL SOCIETY IN
CENTRAL AND EASTERN EUROPE**

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2003 AND 2002

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Trust for Civil Society in Central and Eastern Europe

We have audited the accompanying statements of financial position of Trust for Civil Society in Central and Eastern Europe (a not-for-profit corporation) as of December 31, 2003 and 2002, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide 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 Trust for Civil Society in Central and Eastern Europe as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Lutz + Carr, LLP

New York, New York
March 12, 2004

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Assets		
Cash (Note 2)	\$ 448,904	\$ 2,158,535
Investments, at fair value (Notes 1b and 3)	27,896,111	19,818,100
Unconditional promises to give (Notes 1c and 4)	12,533,468	16,555,684
Miscellaneous receivables and other assets	3,528	3,406
Property and equipment, net of accumulated depreciation (Notes 1d and 5)	18,463	26,714
Security deposit	<u>5,046</u>	<u>7,533</u>
Total Assets	<u><u>\$40,905,520</u></u>	<u><u>\$38,569,972</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 45,954	\$ 16,568
Grants payable (Notes 1e and 6)	<u>7,203,796</u>	<u>8,396,814</u>
Total Liabilities	7,249,750	8,413,382
Commitment (Note 7)		
Net Assets		
Temporarily restricted (Note 8)	<u>33,655,770</u>	<u>30,156,590</u>
Total Liabilities and Net Assets	<u><u>\$40,905,520</u></u>	<u><u>\$38,569,972</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Changes in Unrestricted Net Assets		
Revenues and Support		
Grants and contributions	\$ -	\$ 1,013,989
Investment income	586,320	1,007,341
Realized gain (loss) on sale of investments	(279,071)	33,198
Unrealized appreciation (depreciation) in market value of investments	1,917,524	(1,040,409)
Net assets released from restriction	<u>2,278,604</u>	<u>7,248,315</u>
Total Unrestricted Revenue and Support	<u>4,503,377</u>	<u>8,262,434</u>
Expenses		
Program expenses	4,333,514	8,138,516
Management and general	<u>169,863</u>	<u>123,918</u>
Total Expenses	<u>4,503,377</u>	<u>8,262,434</u>
Decrease in Unrestricted Net Assets	<u>-</u>	<u>-</u>
Changes in Temporarily Restricted Net Assets		
Contributions	5,777,784	-
Net assets released from restriction	<u>(2,278,604)</u>	<u>(7,248,315)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>3,499,180</u>	<u>(7,248,315)</u>
Increase (decrease) in net assets	3,499,180	(7,248,315)
Net assets, beginning of year	<u>30,156,590</u>	<u>37,404,905</u>
Net Assets, End of Year	<u><u>\$33,655,770</u></u>	<u><u>\$30,156,590</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 3,499,180	\$ (7,248,315)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,251	8,251
Realized (gain) loss on sale of investments	279,071	(33,198)
Unrealized (appreciation) depreciation in market value of investments	(1,917,524)	1,040,409
(Increase) decrease in:		
Unconditional promises to give	4,022,216	4,336,011
Miscellaneous receivables and other assets	(122)	278,961
Security deposit	2,487	-
Increase (decrease) in:		
Accounts payable and accrued expenses	29,386	478
Grants payable	(1,193,018)	4,534,161
Net Cash Provided By Operating Activities	4,729,927	2,916,758
 Cash Flows From Investing Activities		
Net purchases of investments	(6,439,558)	(1,296,796)
Net increase (decrease) in cash	(1,709,631)	1,619,962
Cash, beginning of year	2,158,535	538,573
 Cash, End of Year	\$ 448,904	\$ 2,158,535

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2003 AND 2002****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Trust for Civil Society in Central and Eastern Europe (the "Trust") is operated exclusively for charitable and educational purposes by supporting activities for the benefit of, to perform the functions of, and to carry out the purposes of The German Marshall Fund of the United States. It helps Americans and Europeans learn from each other, and from other industrial societies how best to serve their economic, social, cultural, and political development. It operates a grant making program in Central and Eastern Europe in the areas of economic development, fostering democracy, the environment, immigration and integration.

The Trust is involved in a major initiative to create sustainability for civil society and nongovernmental organizations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. The Trust provides a coordinated structure through which philanthropic institutions and individuals may combine their resources and efforts to provide an effective and efficient response to support the long-term sustainable development of civil society and nongovernmental organizations in Central and Eastern Europe.

The Trust assists local people and institutions in individual countries to take strategic steps with long-term benefits toward three primary objectives: (1) creating a supportive environment for Civil Society which includes the legal, fiscal, and political environments that nurture the development of strong civic life: (2) strengthening the nonprofit sector which includes capacity building especially intra sector and cross sectoral cooperation and partnership: and (3) enhancing the financial sustainability of nonprofit organizations which consists of encouraging indigenous philanthropy as well as public and other sources of support for nonprofits, operational and strategic development support for nonprofit organizations, and contributions to the endowment of proven "mature" nonprofit organizations.

b - Investments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the Trust reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

c - Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2003 AND 2002****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**c - Unconditional Promises to Give (continued)

The Trust uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset.

e - Grants Payable

Grants payable are accrued at the time authorized. Grants payable later than one year from the end of a fiscal year are discounted to present value using a rate of 5%.

f - Financial Statement Presentation

The Trust presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Trust reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

g - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h - Tax Status

The Trust is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and it has been designated as an organization that is not a private foundation.

Note 2 - Concentration of Credit Risk

The Foundation maintains its cash and certain investments in several financial institutions in the United States and Europe. The cash balances at the United States institution is insured by the Federal Deposit Insurance Corporation up to \$100,000.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 3 - Investments

Investments consist of:

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity mutual funds	\$ 6,622,785	\$ 7,122,233	\$ 6,926,846	\$ 5,431,849
Fixed income mutual funds	19,132,096	19,306,102	13,581,048	13,831,977
Cash	1,467,776	1,467,776	-	-
Certificates of deposit	-	-	554,274	554,274
	<u>\$27,222,657</u>	<u>\$27,896,111</u>	<u>\$21,062,168</u>	<u>\$19,818,100</u>

Note 4 - Unconditional Promises to Give

These amounts are restricted for future periods and programs and are due as follows:

	<u>2003</u>	<u>2002</u>
One year	\$ 5,450,000	\$ 6,000,000
Two to five years	<u>8,000,000</u>	<u>12,200,000</u>
	13,450,000	18,200,000
Less: Discount to present value	<u>916,532</u>	<u>1,644,316</u>
	<u>\$12,533,468</u>	<u>\$16,555,684</u>

Uncollectible promises are expected to be insignificant. Amounts to be received after one year are discounted to present value using a discount rate of 5%.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2003</u>	<u>2002</u>
Auto	5 years	\$22,525	\$22,525
Office equipment	3-7 years	<u>18,209</u>	<u>18,209</u>
		40,734	40,734
Less: Accumulated depreciation		<u>22,271</u>	<u>14,020</u>
		<u>\$18,463</u>	<u>\$26,714</u>

Depreciation expense for the years ended December 31, 2003 and 2002 was \$8,251 in each year.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 6 - Grants Payable

Grants as of December 31 are payable as follows:

	2003	2002
Within one year	\$4,714,000	\$4,379,970
One to five years	<u>2,745,000</u>	<u>4,500,000</u>
	7,459,000	8,879,970
Less: Discount to present value	<u>255,204</u>	<u>483,156</u>
	<u>\$7,203,796</u>	<u>\$8,396,814</u>

Note 7 - Lease Commitment

The Trust occupies office space under an agreement providing for monthly costs of \$1,626 through 2006.

Rental costs in 2003 and 2002 were \$29,416 and \$29,681, respectively.

Note 8 - Restrictions on Net Assets

Temporarily restricted net assets are restricted for future periods and programs.

Note 9 - Functional Allocation of Expenses

The cost of providing the program and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and the supporting services benefited.

ADDITIONAL INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

To the Board of Trustees of
Trust for Civil Society in Central and Eastern Europe

Our report on our audits of the basic financial statements of Trust for Civil Society in Central and Eastern Europe for 2003 and 2002 appears on page 1. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the years ended December 31, 2003 and 2002 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
March 12, 2004

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003			2002		
	Program Expenses	Management and General	Total	Program Expenses	Management and General	Total
Grants paid	\$4,070,952	\$ -	\$4,070,952	\$7,949,161	\$ -	\$7,949,161
Program implementation	46,786	-	46,786	12,117	-	12,117
Payroll, fees and related costs	114,563	56,928	171,491	94,589	53,240	147,829
Occupancy costs	16,431	16,431	32,862	16,197	16,197	32,394
Professional fees	-	56,839	56,839	-	30,586	30,586
Travel	57,486	-	57,486	36,671	-	36,671
Office expenses	4,377	4,377	8,754	4,529	4,528	9,057
Telephone	6,622	3,311	9,933	6,496	3,248	9,744
Insurance	-	7,707	7,707	-	6,840	6,840
Repairs and maintenance	-	20,433	20,433	-	5,802	5,802
Depreciation	8,251	-	8,251	8,251	-	8,251
Bank charges	-	2,964	2,964	-	2,486	2,486
Meetings and conference	2,503	-	2,503	5,224	-	5,224
Postage	1,747	873	2,620	1,981	991	2,972
Dues and subscriptions	3,796	-	3,796	3,300	-	3,300
Total Expenses	<u>\$4,333,514</u>	<u>\$ 169,863</u>	<u>\$4,503,377</u>	<u>\$8,138,516</u>	<u>\$ 123,918</u>	<u>\$8,262,434</u>