

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

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2005 AND 2004**

# 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, 2005 and 2004, 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 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 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
April 4, 2006

## TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash (Note 2)	\$ 432,727	\$ 642,432
Investments, at fair value (Notes 1b and 3)	35,769,173	34,152,881
Unconditional promises to give (Notes 1c and 4)	4,018,000	7,628,118
Miscellaneous receivables and other assets	13,406	2,972
Property and equipment, net of accumulated depreciation (Notes 1d and 5)	42,530	4,617
Security deposit	5,902	4,268
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<u>\$40,281,738</u>	<u>\$42,435,288</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 31,477	\$ 33,654
Grants payable (Notes 1e and 6)	955,000	4,027,368
Total Liabilities	<u>986,477</u>	<u>4,061,022</u>
Commitment (Note 7)		
Net Assets		
Temporarily restricted (Note 8)	<u>39,295,261</u>	<u>38,374,266</u>
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Net Assets</b>	<u>\$40,281,738</u>	<u>\$42,435,288</u>

See notes to financial statements.

## TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenues and Support		
Investment income	\$ 246,101	\$ 490,048
Realized gain on sale of investments	248	50,811
Unrealized appreciation in market value of investments	796,228	830,992
Net assets released from restriction	<u>323,389</u>	<u>2,826,154</u>
Total Unrestricted Revenue and Support	<u>1,365,966</u>	<u>4,198,005</u>
Expenses		
Program expenses	968,149	3,839,369
Management and general	389,659	336,947
Fundraising	<u>8,158</u>	<u>21,689</u>
Total Expenses	<u>1,365,966</u>	<u>4,198,005</u>
Change in Unrestricted Net Assets	<u>-</u>	<u>-</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	1,244,384	7,544,650
Net assets released from restriction	<u>(323,389)</u>	<u>(2,826,154)</u>
Increase in Temporarily Restricted Net Assets	<u>920,995</u>	<u>4,718,496</u>
Increase in net assets	920,995	4,718,496
Net assets, beginning of year	<u>38,374,266</u>	<u>33,655,770</u>
<b>Net Assets, End of Year</b>	<u><u>\$39,295,261</u></u>	<u><u>\$38,374,266</u></u>

See notes to financial statements.

## TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 920,995	\$ 4,718,496
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,829	7,840
Realized gain on sale of investments	(248)	(50,811)
Unrealized appreciation in market value of investments	(796,228)	(830,992)
Gain on sale of equipment	-	(2,901)
(Increase) decrease in:		
Unconditional promises to give	3,610,118	4,905,350
Miscellaneous receivables and other assets	(10,434)	556
Security deposit	(1,634)	778
Decrease in:		
Accounts payable and accrued expenses	(2,177)	(12,300)
Grants payable	(3,072,368)	(3,176,428)
Net Cash Provided By Operating Activities	<u>655,853</u>	<u>5,559,588</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(45,742)	-
Proceeds from sale of equipment	15,357	8,907
Net purchases of investments	(835,173)	(5,374,967)
Net Cash Used By Investing Activities	<u>(865,558)</u>	<u>(5,366,060)</u>
Net increase (decrease) in cash	(209,705)	193,528
Cash, beginning of year	<u>642,432</u>	<u>448,904</u>
<b>Cash, End of Year</b>	<u><u>\$ 432,727</u></u>	<u><u>\$ 642,432</u></u>

See notes to financial statements.

**TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2005 AND 2004****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**

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, 2005 AND 2004****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 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, 2005 AND 2004**

**Note 3 - Investments**

Investments consist of:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity mutual funds	\$ 6,936,158	\$ 8,651,866	\$ 6,773,343	\$ 8,068,921
Fixed income mutual funds	25,509,485	26,094,451	21,522,888	21,731,756
Cash	1,022,856	1,022,856	1,352,204	1,352,204
Certificates of deposit	-	-	3,000,000	3,000,000
	<u>\$33,468,499</u>	<u>\$35,769,173</u>	<u>\$32,648,435</u>	<u>\$34,152,881</u>

**Note 4 - Unconditional Promises to Give**

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

	<u>2005</u>	<u>2004</u>
One year	\$4,018,000	\$4,000,000
Two to five years	-	4,000,000
	<u>4,018,000</u>	<u>8,000,000</u>
Less: Discount to present value	-	371,882
	<u>\$4,018,000</u>	<u>\$7,628,118</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>2005</u>	<u>2004</u>
Office equipment	3-7 years	\$34,576	\$18,209
Furniture and fixtures	7 years	12,269	-
Leasehold improvements	5 years	<u>17,106</u>	-
		63,951	18,209
Less: Accumulated depreciation		<u>21,421</u>	<u>13,592</u>
		<u>\$42,530</u>	<u>\$ 4,617</u>

Depreciation expense for the years ended December 31, 2005 and 2004 was \$7,829 and \$7,840, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

**Note 6 - Grants Payable**

Grants as of December 31 are payable as follows:

	<u>2005</u>	<u>2004</u>
Within one year	\$943,000	\$3,178,000
One to five years	<u>12,000</u>	<u>937,000</u>
	955,000	4,115,000
Less: Discount to present value	<u>-</u>	<u>87,632</u>
	<u>\$955,000</u>	<u>\$4,027,368</u>

**Note 7 - Lease Commitment**

The Trust occupies office space under an agreement, through 2006, providing for monthly costs of approximately \$2,000 (including VAT). Additional office space in Sofia, Bulgaria was leased for a term of five years beginning in August 2005. The monthly rent for this space is approximately \$1,600. These costs are paid in foreign currencies, therefore, the amounts may fluctuate.

Rental costs in 2005 and 2004 were \$30,124 and \$26,128, 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 2005 and 2004 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2005 and 2004 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  
April 4, 2006

## TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

## SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005				2004			
	Program Expenses	Management and General	Fundraising	Total	Program Expenses	Management and General	Fundraising	Total
Grants paid	\$ 654,987	\$ -	\$ -	\$ 654,987	\$3,394,923	\$ -	\$ -	\$3,394,923
Program implementation	17,286	-	-	17,286	84,723	-	-	84,723
Payroll, fees and related costs	98,074	44,009	2,558	144,641	170,772	48,799	21,689	241,260
Occupancy costs	16,929	16,929	-	33,858	14,503	14,503	-	29,006
Professional fees	55,041	272,267	5,600	332,908	25,500	231,948	-	257,448
Travel	84,218	1,463	-	85,681	76,684	-	-	76,684
Meetings and conference	6,935	-	-	6,935	28,481	-	-	28,481
Office expenses	7,711	7,358	-	15,069	16,336	10,869	-	27,205
Telephone	6,557	3,203	-	9,760	8,887	4,365	-	13,252
Insurance	-	6,173	-	6,173	-	7,145	-	7,145
Repairs and maintenance	-	16,795	-	16,795	-	8,557	-	8,557
Depreciation	7,829	-	-	7,829	7,840	-	-	7,840
Bank charges	-	5,125	-	5,125	-	3,983	-	3,983
Postage	1,959	980	-	2,939	4,295	1,998	-	6,293
Dues and subscriptions	10,623	-	-	10,623	6,425	-	-	6,425
Investment fees	-	15,357	-	15,357	-	4,780	-	4,780
Total Expenses	<u>\$ 968,149</u>	<u>\$ 389,659</u>	<u>\$ 8,158</u>	<u>\$1,365,966</u>	<u>\$3,839,369</u>	<u>\$ 336,947</u>	<u>\$ 21,689</u>	<u>\$4,198,005</u>

See independent auditor's report on additional information.