

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

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2006 AND 2005

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, 2006 and 2005, 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, 2006 and 2005, 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
May 10, 2007

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash (Note 2)	\$ 1,784,585	\$ 432,727
Investments, at fair value (Notes 1b and 3)	43,144,108	35,769,173
Unconditional promises to give (Notes 1c and 4)	799,405	4,018,000
Miscellaneous receivables and other assets	7,810	13,406
Property and equipment, net of accumulated depreciation (Notes 1d and 5)	30,735	42,530
Security deposit	<u>5,902</u>	<u>5,902</u>
Total Assets	<u>\$45,772,545</u>	<u>\$40,281,738</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 16,944	\$ 31,477
Grants payable (Notes 1e and 6)	<u>984,577</u>	<u>955,000</u>
Total Liabilities	1,001,521	986,477
Commitment (Note 7)		
Net Assets		
Temporarily restricted (Note 8)	<u>44,771,024</u>	<u>39,295,261</u>
Total Liabilities and Net Assets	<u>\$45,772,545</u>	<u>\$40,281,738</u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Changes in Unrestricted Net Assets		
Revenues and Support		
Investment income	\$ 406,528	\$ 246,101
Realized gain on sale of investments	1,340,489	248
Unrealized appreciation in market value of investments	1,116,882	796,228
Net assets released from restriction	<u>405,425</u>	<u>323,389</u>
Total Unrestricted Revenue and Support	<u>3,269,324</u>	<u>1,365,966</u>
Expenses		
Program expenses	3,071,148	968,149
Management and general	181,837	389,659
Fundraising	<u>16,339</u>	<u>8,158</u>
Total Expenses	<u>3,269,324</u>	<u>1,365,966</u>
Change in Unrestricted Net Assets	<u>-</u>	<u>-</u>
Changes in Temporarily Restricted Net Assets		
Contributions	5,881,188	1,244,384
Net assets released from restriction	<u>(405,425)</u>	<u>(323,389)</u>
Increase in Temporarily Restricted Net Assets	<u>5,475,763</u>	<u>920,995</u>
Increase in net assets	5,475,763	920,995
Net assets, beginning of year	<u>39,295,261</u>	<u>38,374,266</u>
Net Assets, End of Year	<u><u>\$44,771,024</u></u>	<u><u>\$39,295,261</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 5,475,763	\$ 920,995
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	11,795	7,829
Realized gain on sale of investments	(1,340,489)	(248)
Unrealized appreciation in market value of investments	(1,116,882)	(796,228)
(Increase) decrease in:		
Unconditional promises to give	3,218,595	3,610,118
Miscellaneous receivables and other assets	5,596	(10,434)
Security deposit	-	(1,634)
Increase (decrease) in:		
Accounts payable and accrued expenses	(14,533)	(2,177)
Grants payable	29,577	(3,072,368)
Net Cash Provided By Operating Activities	<u>6,269,422</u>	<u>655,853</u>
Cash Flows From Investing Activities		
Net purchases of investments	(4,917,564)	(835,173)
Purchase of property and equipment	-	(45,742)
Proceeds from sale of equipment	-	15,357
Net Cash Used By Investing Activities	<u>(4,917,564)</u>	<u>(865,558)</u>
Net increase (decrease) in cash	1,351,858	(209,705)
Cash, beginning of year	<u>432,727</u>	<u>642,432</u>
Cash, End of Year	<u><u>\$ 1,784,585</u></u>	<u><u>\$ 432,727</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2006 AND 2005****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, 2006 AND 2005****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, 2006 AND 2005

Note 3 - Investments

Investments consist of:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Index mutual funds	\$ 8,412,729	\$10,281,601	\$ 6,936,158	\$ 8,651,866
Fixed income mutual funds	23,955,513	25,504,197	25,509,485	26,094,451
Cash	<u>7,358,310</u>	<u>7,358,310</u>	<u>1,022,856</u>	<u>1,022,856</u>
	<u>\$39,726,552</u>	<u>\$43,144,108</u>	<u>\$33,468,499</u>	<u>\$35,769,173</u>

Note 4 - Unconditional Promises to Give

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

	<u>2006</u>	<u>2005</u>
One year	\$686,218	\$4,018,000
Two to five years	<u>122,000</u>	<u>-</u>
	808,218	4,018,000
Less: Discount to present value	<u>(8,813)</u>	<u>-</u>
	<u>\$799,405</u>	<u>\$4,018,000</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%.

Under a funding agreement, the Organization received a conditional pledge which is not included in these financial statements. A new award letter must be signed for each installment of the pledge. The remaining balance under the funding agreement is expected to be paid in four annual installments of \$500,000 each.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2006</u>	<u>2005</u>
Office equipment	3-7 years	\$34,576	\$34,576
Furniture and fixtures	7 years	12,269	12,269
Leasehold improvements	5 years	<u>17,106</u>	<u>17,106</u>
		63,951	63,951
Less: Accumulated depreciation		<u>33,216</u>	<u>21,421</u>
		<u>\$30,735</u>	<u>\$42,530</u>

Depreciation expense for the years ended December 31, 2006 and 2005 was \$11,795 and \$7,829, respectively.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

Note 6 - Grants Payable

Grants as of December 31 are payable as follows:

	2006	2005
Within one year	\$859,577	\$943,000
One to five years	135,000	12,000
	994,577	955,000
Less: Discount to present value	(10,000)	-
	\$984,577	\$955,000

Note 7 - Lease Commitment

The Trust occupies office space under an agreement through 2007, providing for monthly costs of approximately \$650 (excluding 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 2006 and 2005 were \$38,397 and \$30,124, 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 2006 and 2005 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, 2006 and 2005 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
May 10, 2007

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006				2005			
	Program Expenses	Management and General	Fundraising	Total	Program Expenses	Management and General	Fundraising	Total
Grants paid	\$2,520,267	\$ -	\$ -	\$2,520,267	\$ 654,987	\$ -	\$ -	\$ 654,987
Cross Border Initiative	130,192	-	-	130,192	-	-	-	-
Fellowship	2,354	-	-	2,354	-	-	-	-
Program implementation	59,308	-	-	59,308	17,286	-	-	17,286
Payroll, fees and related costs	129,420	53,913	16,339	199,672	98,074	44,009	2,558	144,641
Occupancy costs	21,545	21,544	-	43,089	16,929	16,929	-	33,858
Professional fees	89,785	22,446	-	112,231	55,041	272,267	5,600	332,908
Travel	67,035	2,980	-	70,015	84,218	1,463	-	85,681
Meetings and conference	13,911	-	-	13,911	6,935	-	-	6,935
Office expenses	6,110	6,111	-	12,221	7,711	7,358	-	15,069
Telephone	9,748	4,178	-	13,926	6,557	3,203	-	9,760
Insurance	-	7,360	-	7,360	-	6,173	-	6,173
Repairs and maintenance	-	40,150	-	40,150	-	16,795	-	16,795
Depreciation	11,795	-	-	11,795	7,829	-	-	7,829
Bank charges	-	6,009	-	6,009	-	5,125	-	5,125
Postage	1,144	2,668	-	3,812	1,959	980	-	2,939
Dues and subscriptions	8,534	-	-	8,534	10,623	-	-	10,623
Investment fees	-	14,478	-	14,478	-	15,357	-	15,357
Total Expenses	<u>\$3,071,148</u>	<u>\$ 181,837</u>	<u>\$ 16,339</u>	<u>\$3,269,324</u>	<u>\$ 968,149</u>	<u>\$ 389,659</u>	<u>\$ 8,158</u>	<u>\$1,365,966</u>

See independent auditor's report on additional information.