

**Trust for Civil Society in
Central and Eastern Europe**

Financial Statements

December 31, 2007



Independent Auditors' Report

Board of Directors Trust For Civil Society in Central and Eastern Europe

We have audited the accompanying statement of financial position of Trust For Civil Society in Central and Eastern Europe (the "Trust") as of December 31, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Trust'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 financial statements of the Trust as of December 31, 2006, which were audited by other auditors and whose report dated May 10, 2007, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Trust, 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 Trust as of December 31, 2007, 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.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
May 2, 2008

Trust for Civil Society in Central and Eastern Europe

Statement of Financial Position

December 31, 2007

(with comparative amounts at December 31, 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 2,162,886	\$ 4,996,638
Pledges receivable	149,211	799,405
Receivables and other assets	39,944	7,810
Investments	40,071,728	39,932,055
Property and equipment, net	34,363	30,735
Security deposit	1,634	5,902
	<u>\$ 42,459,766</u>	<u>\$ 45,772,545</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Account payable and accrued expenses	\$ 60,128	\$ 16,944
Grants payable	<u>3,286,351</u>	<u>984,577</u>
Total Liabilities	<u>3,346,479</u>	<u>1,001,521</u>
Net Assets		
Unrestricted	-	-
Temporarily restricted	<u>39,113,287</u>	<u>44,771,024</u>
Total Net Assets	<u>39,113,287</u>	<u>44,771,024</u>
	<u>\$ 42,459,766</u>	<u>\$ 45,772,545</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Activities

Year Ended December 31, 2007

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

	Unrestricted	Temporarily Restricted	2007 Total	2006 Total
REVENUE AND SUPPORT				
Contributions	\$ -	\$ 566,026	\$ 566,026	\$ 5,881,188
Investment income	498,603	-	498,603	406,528
Realized gain on sale of investments	343,909	-	343,909	1,340,489
Unrealized appreciation in investments	2,065,840	-	2,065,840	1,116,882
Other income	9,107	-	9,107	-
Net assets released from restriction	<u>6,223,763</u>	<u>(6,223,763)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>9,141,222</u>	<u>(5,657,737)</u>	<u>3,483,485</u>	<u>8,745,087</u>
EXPENSES				
Program services	8,932,068	-	8,932,068	3,071,148
General and administrative	189,333	-	189,333	181,837
Fundraising	<u>19,821</u>	<u>-</u>	<u>19,821</u>	<u>16,339</u>
Total Expenses	<u>9,141,222</u>	<u>-</u>	<u>9,141,222</u>	<u>3,269,324</u>
Change in Net Assets	-	(5,657,737)	(5,657,737)	5,475,763
NET ASSETS				
Beginning of year	<u>-</u>	<u>44,771,024</u>	<u>44,771,024</u>	<u>39,295,261</u>
End of year	<u>\$ -</u>	<u>\$ 39,113,287</u>	<u>\$ 39,113,287</u>	<u>\$ 44,771,024</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Functional Expenses

Year Ended December 31, 2007

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

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2007 Total</u>	<u>2006 Total</u>
Grants paid	\$ 8,010,969	\$ -	\$ -	\$ 8,010,969	\$ 2,520,267
Cross border initiative	227,651	-	-	227,651	130,192
Fellowship grants	12,600	-	-	12,600	2,354
Community foundation	109,759	-	-	109,759	-
Program implementation	164,884	-	-	164,884	59,308
Payroll, fees and related costs	208,300	81,660	19,821	309,781	199,672
Occupancy costs	18,494	18,494	-	36,988	43,089
Professional fees	62,236	15,559	-	77,795	112,231
Travel	60,196	6,688	-	66,884	70,017
Meetings and other functions	14,549	-	-	14,549	13,911
Office expenses	6,997	6,997	-	13,994	12,221
Telephone	11,385	4,879	-	16,264	13,926
Insurance	-	1,290	-	1,290	7,360
Repairs and maintenance	-	17,460	-	17,460	40,150
Depreciation	14,532	-	-	14,532	11,795
Bank charges	-	9,610	-	9,610	6,009
Postage	1,160	2,707	-	3,867	3,812
Dues and subscriptions	8,356	-	-	8,356	8,534
Investment fees	-	23,989	-	23,989	14,478
Total Expenses	<u>\$ 8,932,068</u>	<u>\$ 189,333</u>	<u>\$ 19,821</u>	<u>\$ 9,141,222</u>	<u>\$ 3,269,326</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Cash Flows

Year Ended December 31, 2007

(with comparative amounts for the year ended December 31, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,657,737)	\$ 5,475,763
Adjustments to reconcile change in net assets to net cash (used) provided in operating activities		
Depreciation	14,532	11,795
Realized gain on sale of investments	(343,909)	(1,340,489)
Unrealized appreciation in market value of investments	(2,065,840)	(1,116,882)
Gain on disposal of equipment	2	-
Changes in operating assets and liabilities		
Unconditional promises to give	650,194	3,218,595
Receivables and other assets	(32,134)	5,596
Accounts payable and accrued expenses	43,184	(14,533)
Grants payable	<u>2,301,774</u>	<u>29,577</u>
Net Cash (Used) Provided by Operating Activities	<u>(5,089,934)</u>	<u>6,269,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(429,924)	(1,705,511)
Proceeds from sale of investments	2,700,000	-
Purchase of property and equipment	(18,160)	-
Proceeds from sale of property and equipment	9,107	-
Security deposit refund	<u>4,268</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>2,265,291</u>	<u>(1,705,511)</u>
Net Change in Cash and Cash Equivalents	(2,824,643)	4,563,911
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,996,638</u>	<u>432,727</u>
End of Year	<u>\$ 2,171,995</u>	<u>\$ 4,996,638</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

1. Organization and Tax Status

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.

Tax Status

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

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Trust to make certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of contingencies at the date of the financial statements and the reported amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified and reported as unrestricted, temporarily restricted and permanently restricted.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Trust considers all unrestricted highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash held in investment accounts or for long term use is not considered a cash equivalent.

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.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Trust's historical experience, review of account balances and expectations relative to collections.

Investments

Investments are recorded at fair value based on quoted market prices. Unrealized gains and losses on investments are reflected in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset, generally three to seven years.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

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%.

Functional Allocation of Expenses

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

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 Trust's financial statements as of and for the year ended December 31, 2006, from which the summarized comparative information was derived.

Reclassifications

Certain items in the 2006 financial statements have been reclassified to conform to 2007 presentation.

3. 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 held by institutions in the United States are insured by the Federal Deposit Insurance Corporation up to \$100,000.

4. Investments

Investments consist of the following at December 31:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 4,359,476	\$ 4,359,476	\$ 4,146,257	\$ 4,146,257
Index mutual funds	8,653,424	11,021,506	8,412,729	10,281,601
Fixed income mutual	21,575,432	24,690,746	23,955,513	25,504,197
	<u>\$ 34,588,332</u>	<u>\$ 40,071,728</u>	<u>\$ 36,514,499</u>	<u>\$ 39,932,055</u>

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

5. Unconditional Promises to Give

Unconditional promises to give consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
One year	\$ 122,000	\$ 686,218
Two to five years	<u>30,000</u>	<u>122,000</u>
	152,000	808,218
Discount to present value using 5%	<u>(2,789)</u>	<u>(8,813)</u>
	<u>\$ 149,211</u>	<u>\$ 799,405</u>

Management believes that outstanding promises to give will be fully collected and therefore has not provided any allowance for uncollectible amounts.

6. Conditional Pledge

Under a funding agreement, the Trust 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 three annual installments of \$500,000 each.

7. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Office equipment	\$ 51,624	\$ 34,576
Furniture and fixtures	13,381	12,269
Leasehold improvements	<u>17,106</u>	<u>17,106</u>
	82,111	63,951
Accumulated depreciation	<u>(47,748)</u>	<u>(33,216)</u>
	<u>\$ 34,363</u>	<u>\$ 30,735</u>

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

8. Grants Payable

Grants at December 31 are payable as follows:

	<u>2007</u>	<u>2006</u>
Within one year	\$ 2,205,990	\$ 859,577
One to five years	<u>1,186,450</u>	<u>135,000</u>
	3,392,440	994,577
Discount to present value using 5%	<u>(106,089)</u>	<u>(10,000)</u>
	<u>\$ 3,286,351</u>	<u>\$ 984,577</u>

9. Lease Commitments

The Trust occupies office space in Warsaw, Poland on an annual basis. Additional office space in Sofia, Bulgaria was leased for a term of five years beginning in August 2006. The monthly rent for this space is approximately \$1,900. These costs are paid in foreign currencies, therefore the amounts may fluctuate. Rent expense was \$30,633 and \$38,397 in 2007 and 2006. Minimum future lease payments computed using the exchange rate in effect at December 31, 2007, are as follows:

2008	\$ 22,977
2009	22,977
2010	22,977
2011	<u>5,744</u>
	<u>\$ 74,675</u>

10. Restrictions on Net Assets

Temporarily restricted net assets are restricted for future periods and programs. Temporarily restricted net assets that met the timing restrictions for 2007 have been released from restriction.