

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

Financial Statements

December 31, 2008



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

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, 2008, 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 Trust's 2007 financial statements and in our report dated May 2, 2008, we 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, 2008, 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 8, 2009

Trust for Civil Society in Central and Eastern Europe

Statement of Financial Position

December 31, 2008

(with comparative amounts at December 31, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 1,199,715	\$ 2,162,886
Pledges receivable, net	27,211	149,211
Receivables and other assets	11,948	39,944
Investments	29,451,135	40,071,728
Property and equipment, net	42,797	34,363
Security deposit	3,063	1,634
	<u>\$ 30,735,869</u>	<u>\$ 42,459,766</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Account payable and accrued expenses	\$ 53,034	\$ 60,128
Grants payable, net	<u>5,385,871</u>	<u>3,286,351</u>
Total Liabilities	<u>5,438,905</u>	<u>3,346,479</u>
Net Assets		
Unrestricted	-	-
Temporarily restricted	<u>25,296,964</u>	<u>39,113,287</u>
Total Net Assets	<u>25,296,964</u>	<u>39,113,287</u>
	<u>\$ 30,735,869</u>	<u>\$ 42,459,766</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Activities

Year Ended December 31, 2008

(with summarized totals for the year ended December 31, 2007)

	Unrestricted	Temporarily Restricted	2008 Total	2007 Total
REVENUE AND SUPPORT				
Contributions	\$ -	\$ 986,104	\$ 986,104	\$ 566,026
Investment income	386,859	-	386,859	498,603
Realized gain on sale of investments	1,190,968	-	1,190,968	343,909
Unrealized (loss) gain on investments	(4,461,301)	-	(4,461,301)	2,065,840
Other income	3,115	-	3,115	9,107
Net assets released from restriction	<u>14,802,427</u>	<u>(14,802,427)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>11,922,068</u>	<u>(13,816,323)</u>	<u>(1,894,255)</u>	<u>3,483,485</u>
EXPENSES				
Program services	11,669,983	-	11,669,983	8,932,068
General and administrative	226,984	-	226,984	189,333
Fundraising	<u>25,101</u>	<u>-</u>	<u>25,101</u>	<u>19,821</u>
Total Expenses	<u>11,922,068</u>	<u>-</u>	<u>11,922,068</u>	<u>9,141,222</u>
Change in Net Assets	-	(13,816,323)	(13,816,323)	(5,657,737)
NET ASSETS				
Beginning of year	<u>-</u>	<u>39,113,287</u>	<u>39,113,287</u>	<u>44,771,024</u>
End of year	<u>\$ -</u>	<u>\$ 25,296,964</u>	<u>\$ 25,296,964</u>	<u>\$ 39,113,287</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Functional Expenses

Year Ended December 31, 2008

(with summarized totals for the year ended December 31, 2007)

	Program Services	General and Administrative	Fundraising	2008 Total	2007 Total
Grants	\$ 10,374,489	\$ -	\$ -	\$ 10,374,489	\$ 8,010,969
Cross border initiative	156,235	-	-	156,235	227,651
Fellowship grants	155,531	-	-	155,531	12,600
Community foundation	177,116	-	-	177,116	109,759
Program implementation	93,302	-	-	93,302	164,884
Payroll, fees and related costs	370,268	111,485	25,101	506,854	309,781
Occupancy costs	29,983	29,983	-	59,966	36,988
Professional fees	66,427	16,607	-	83,034	77,795
Travel	94,924	10,547	-	105,471	66,884
Meetings and other functions	18,689	-	-	18,689	14,549
Office expenses	17,830	17,830	-	35,660	13,994
Telephone	17,824	7,639	-	25,463	16,264
Insurance	-	5,486	-	5,486	1,290
Repairs and maintenance	-	12,360	-	12,360	17,460
Depreciation	12,056	-	-	12,056	14,532
Bank charges	-	11,892	-	11,892	9,610
Postage	1,352	3,155	-	4,507	3,867
Dues and subscriptions	21,164	-	-	21,164	8,356
Investment fees	16,999	-	-	16,999	23,989
Civil Society Forum	10,739	-	-	10,739	-
Evaluation	35,055	-	-	35,055	-
Total Expenses	\$ 11,669,983	\$ 226,984	\$ 25,101	\$ 11,922,068	\$ 9,141,222

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Cash Flows

Year Ended December 31, 2008

(with comparative amounts for the year ended December 31, 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (13,816,323)	\$ (5,657,737)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	12,056	14,532
Realized gain on sale of investments	(1,190,968)	(343,909)
Unrealized loss (gain) in market value of investments	4,461,301	(2,065,840)
Changes in operating assets and liabilities		
Pledges receivable	122,000	650,194
Receivables and other assets	27,996	(32,134)
Accounts payable and accrued expenses	(7,094)	43,184
Grants payable	<u>2,099,520</u>	<u>2,301,774</u>
Net Cash from Operating Activities	<u>(8,291,512)</u>	<u>(5,089,936)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(366,740)	(429,924)
Proceeds from sale of investments	7,717,000	2,700,000
Purchase of property and equipment	(20,490)	(18,160)
Security deposit (payment) refund	<u>(1,429)</u>	<u>4,268</u>
Net Cash from Investing Activities	<u>7,328,341</u>	<u>2,256,184</u>
Net Change in Cash and Cash Equivalents	(963,171)	(2,833,752)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,162,886</u>	<u>4,996,638</u>
End of Year	<u>\$ 1,199,715</u>	<u>\$ 2,162,886</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 for the purposes 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 an initial 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. All 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.

Fair Value of Financial Instruments

For the year ended December 31, 2008, the Trust adopted FASB Statement of Financial Accounting Standards No. 157 Fair Value Measurements ("SFAS 157"). SFAS 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Fair Value of Financial Instruments (continued)

The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 Inputs

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted instruments;

Level 2 Inputs

Quoted prices for similar instruments in active markets or quoted prices for similar instruments in markets that are not active whose inputs are observable, either directly or indirectly;

Level 3 Inputs

Prices or valuations that require inputs that are both significant to the fair value and unobservable.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The value by input level of the Trust's investments are included in Note 4 to the financial statements.

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.

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.

Foreign Currency Translation

Substantially all assets and liabilities of the Trust's European operations are translated at year-end exchange rates; revenue, support and expenses are translated at average exchange rates during the year. Gains and losses from foreign currency translation for the period are included in the statement of activities.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies (*continued*)

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, 2007, from which the summarized comparative information was derived.

Accounting for Uncertainty in Income Taxes

Management of the Trust is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. Consequently, in the opinion of management, adoption of FIN 48 should not have a significant affect on the Trust. The Trust's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable.

3. Concentration of Credit Risk

The Trust's financial instruments that are potentially exposed to concentration of credit risk consist of cash, cash equivalents and investments. The Trust places its cash and cash equivalents with quality financial institutions in the United States and Europe. At times, cash balances may be in excess of FDIC insurance limit. The Trust routinely assesses the financial strength of its cash, cash equivalents and investment portfolio. As a consequence, concentrations of credit risk are limited.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

4. Investments

Investments consist of the following at December 31:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 4,480,380	\$ 4,480,380	\$ 4,359,476	\$ 4,359,476
Index mutual funds	8,899,258	6,782,484	8,653,424	11,021,506
Pooled fixed income funds	<u>15,049,402</u>	<u>18,188,271</u>	<u>21,575,432</u>	<u>24,690,746</u>
	<u>\$ 28,429,040</u>	<u>\$ 29,451,135</u>	<u>\$ 34,588,332</u>	<u>\$ 40,071,728</u>

The following are major categories of investments measured at estimated fair value as of December 31, 2008:

Description	Level 1	Level 2	Total
Money market funds	\$ 4,480,380	\$ -	\$ 4,480,380
Index mutual funds	6,782,484	-	6,782,484
Pooled fixed income funds	-	18,188,271	18,188,271
	<u>\$ 11,262,864</u>	<u>\$ 18,188,271</u>	<u>\$ 29,451,135</u>

5. Unconditional Promises to Give

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

	2008	2007
One year	\$ -	\$ 122,000
Two to five years	<u>30,000</u>	<u>30,000</u>
	30,000	152,000
Discount to present value using 5%	<u>(2,789)</u>	<u>(2,789)</u>
	<u>\$ 27,211</u>	<u>\$ 149,211</u>

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

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

6. Conditional Pledge

Under a funding agreement, the Trust received a conditional pledge which is not included in these financial statements. The remaining balance under the funding agreement is expected to be paid in two annual installments of \$500,000 each.

7. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Office equipment	\$ 68,679	\$ 51,624
Furniture and fixtures	16,816	13,381
Leasehold improvements	<u>17,106</u>	<u>17,106</u>
	102,601	82,111
Accumulated depreciation	<u>(59,804)</u>	<u>(47,748)</u>
	<u>\$ 42,797</u>	<u>\$ 34,363</u>

8. Grants Payable

Grants at December 31 are payable as follows:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 4,117,703	\$ 2,205,990
One to five years	<u>1,405,000</u>	<u>1,186,450</u>
	5,522,703	3,392,440
Discount to present value using 5%	<u>(136,832)</u>	<u>(106,089)</u>
	<u>\$ 5,385,871</u>	<u>\$ 3,286,351</u>

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

9. Lease Commitments

The Trust occupies office space in Warsaw, Poland under an annual lease. 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 \$55,389 and \$38,397 in 2008 and 2007. Minimum future lease payments computed using the exchange rate in effect at December 31, 2008, are as follows:

2009	\$ 22,953
2010	22,953
2011	<u>5,738</u>
	<u>\$ 51,644</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 2008 have been released from restriction.